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Bloomberg Businessweek

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From left: Fishermen Dean Blanchard, Pete Gerica, George Griffith, and Tinakon Dan Sananikone

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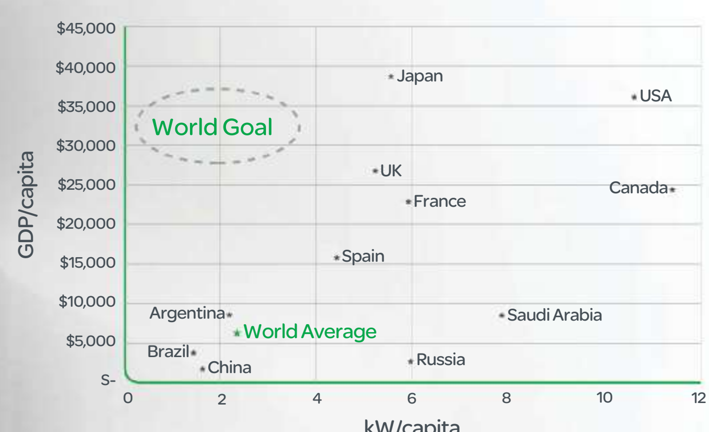
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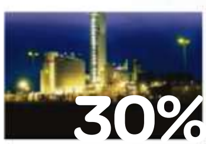
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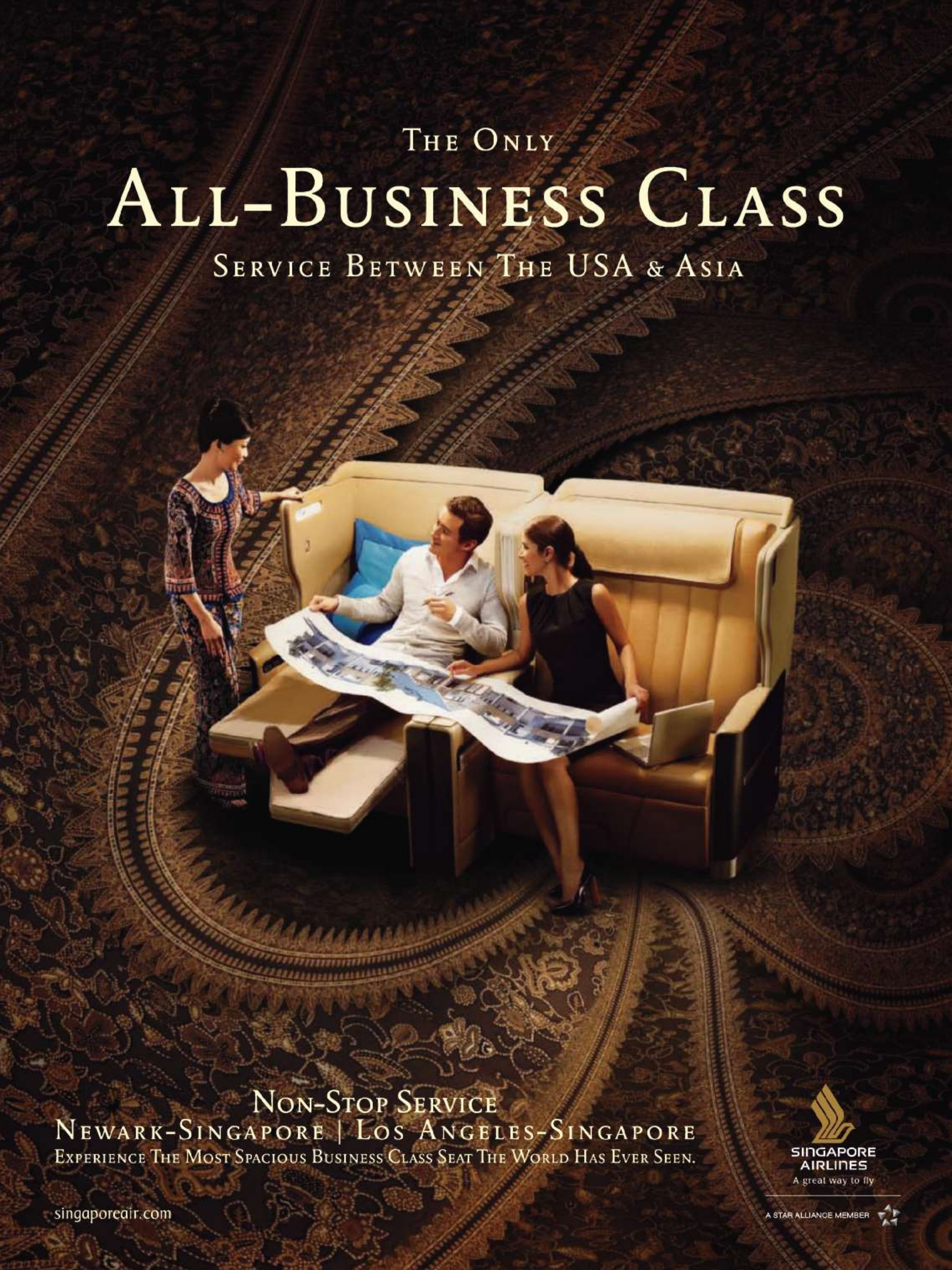
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Corrections & Clarifications

B "Women Entrepreneurs Still Struggle to Get Funded" (Focus on Enterprise, June 28) erroneously described LearnVest's financing timeline. The company's 35 investor meetings took place during two funding rounds between February 2009 and Mar. 30, 2010 – not in an eight-month period ending in April.



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Opening Remarks



When Cash Takes a Vacation

Hedge funds, investors, and corporations are all sitting on piles of money. Here's how to make markets attractive again.
By Roben Farzad

For those who lost big in the crash of 2008-2009, there was one thing more galling than having to open those bright red brokerage statements: knowing that the smart money was profiting from your pain. It was hard enough to watch your home lose value; discovering that hedge fund manager John Paulson earned $15 billion for his investors from betting on the housing bust didn't make things any easier. So it might be comforting to realize that right now the smart money is every bit as confused as the rest of us.

Hedge funds are scaling back their trading as money managers absorb the impact of a 2.8 percent second-quarter decline–the worst second-quarter performance since 2000–and struggle to make sense of where global economies and markets are headed. Credit Suisse Group's prime brokerage unit estimates that its hedge fund clients increased their excess cash to 24 percent of their assets in June, compared with 19 percent three months earlier.

It isn't just hedgies who are frozen in the headlights. American households are sitting on nearly $8 trillion in cash–money that's earning virtually no return because people are so wary of additional losses. U.S. corporations are hoarding at a record pace as well. According to Moody's Investors Service, cash at U.S. nonfinancial corporations stood at $1.84 trillion in the first quarter of this year–a 27 percent increase from early 2007. As a percentage of total company assets, cash is at its highest level in half a century.

"There's a degree of not knowing what sectors or securities to emphasize," says Tim Ghriskey, chief investment officer of Solaris Asset Management, a Bedford Hills (N.Y.) firm with $2 billion under management. "There's also a high degree of correlation among stocks, so it's not the best environment for stock-picking or sector allocation. Investors are not moving money."

ILLUSTRATION BY STEVE CAPLIN

"Why pay a stock market multiple for a company that is essentially acting like a bank—and a bad one at that?"

Jason Trennert, Strategas Research Partners

Max Trautman, a former Goldman Sachs proprietary trader who co-founded London-based Stoneworks Asset Management in 2006, is now paring his $460 million fund's market exposure. "We're trying to reduce risk by downsizing our trades," he says. "It's not that we have stopped taking views, but we're just putting less risk in them."

As Trautman and other hedge fund managers try to figure out the ramifications of such events as the European sovereign debt crisis, new U.S. financial regulations, and China's attempts to cool an overheated economy, they've been reluctant to put their money to work–even though having less money in the market makes it harder for managers who lost money to rebound from losses in May.

Still, some hedge fund investors want their managers to avoid large bets this year. Their caution will have been vindicated if the present market correction morphs into anything resembling the carnage of 2008–giving them a great new buying opportunity. "It's all about capital preservation at the moment," says Amit Shabi, a Paris-based partner at Bernheim Dreyfus, which farms out client money to hedge funds. "The losses of 2008 are still fresh in investors' memories, and so managers should be cautious." Hedge funds lost an average 19 percent in 2008, the industry's worst returns since Hedge Fund Research began tracking data in 1990.

Collision Course

When does holding so much cash go from being a virtue to a vice? When it conspires to undermine the attractiveness of the capital markets. Corporations that are offering neither a handsome dividend nor any real prospect for growth can scarcely expect to attract investors. And hedge funds with high cash positions and low returns are eroding their own high-priced reason for being. While individual investors are free to squirrel away legal tender–they have historically shown a knack for diving back into the market after a runup–their institutional and C-suite counterparts have no such luxury. Professionals are not being overpaid to run glorified certificates of deposit. By definition, businesses must earn a return above their cost of capital, while fund managers must keep watch over their own performance. "Shareholders demand a return no matter what the economic environment," says Sean Kraus, who manages $2 billion in client assets as chief investment officer of CitizensTrust in Pasadena, Calif. "If you don't put cash to work, they will simply sell." And if you lose their money, as so many funds did in 2008, they will sell faster–hence the newfound preference for cash.

The frozen moment can't last for hedge funds. They are mandatorily in the strong-conviction business. They need to keep moving to stay alive in their kill-or-be-killed world, an unforgiving ecosystem that saw almost 2,500 hedge funds die in 2008-09. And some aggressive motion of a specific kind is called for right now: A return to activist investing by hedge fund managers is precisely what the market needs. It could help prod cash-rich corporate behemoths to increase their dividends, thus making equities more attractive to investors in a time of low returns.

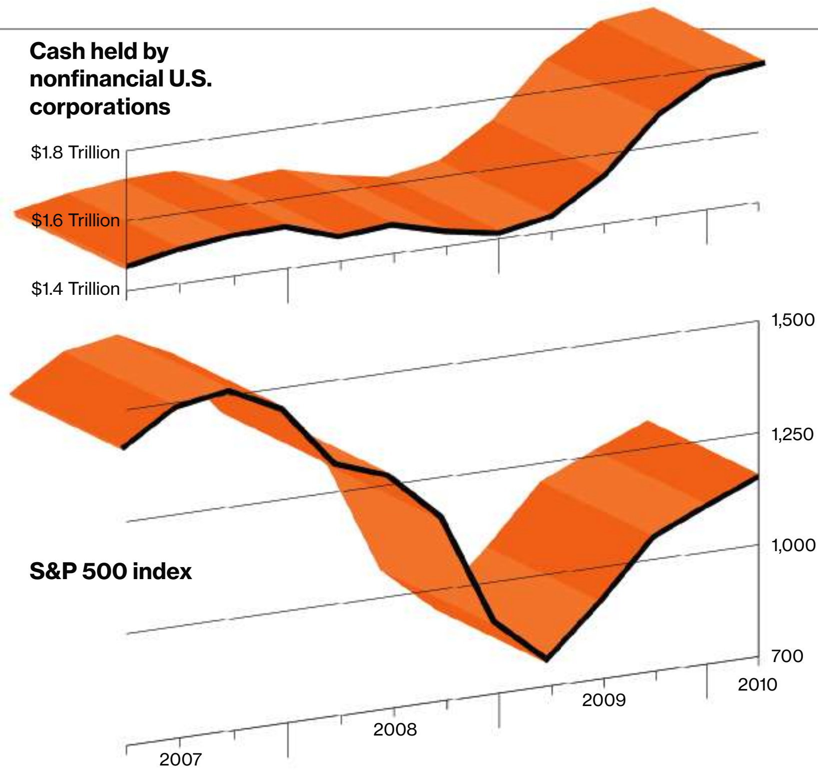
For as long as everyone sits on cash, the priorities of investment managers and corporate boardrooms will remain on a collision course. The longer companies do nothing with their dormant billions, the more their shareholders will realize they could be getting far more bang for their buck. "Why pay a stock market multiple for a company that is essentially acting like a bank–and a bad one at that?" asks Jason Trennert of Strategas Research Partners. He calculates that the overabundance of low-yielding cash this year has shaved 1.4 points off the equity market's earnings multiple.

Consider the predicament of flush companies such as Microsoft, which despite having $40 billion in cash pays a dividend of just 2 percent. With the stock market down 5 percent for the year–13 percent off its late April high and 24 percent below where it was trading 11 years ago–slow-moving herbivores like Microsoft have been some of the worst performers of the lost decade. They continue to lag amid the recent flight from risk, and without strong intervention from somewhere to persuade them to up their dividends, there's little sign that will change. Bill Gross, who runs Pimco Total Return, the world's biggest bond fund, warns that "global financial market returns stand at the threshold of mediocrity," with annual equity returns in the low single digits expected to prevail for some time.

Put it all together, and you have the makings of a broad push toward big investor rebates in what could (and arguably should) become the richest period for dividend-paying stocks since the early 1980s. Those were the late innings of the great market stagnation of 1966-1982, a period that gave rise to an era of corporate raiders and greenmailers. Today, pushing for those dividends–if only to boost their returns–is the proper role of hedge funds, which should be leading the dance of the capital markets.

'Time to Cash Out'

For the time being, however, hedge funds are playing a less active, less risky, and ultimately less healthy game. Their passivity allows corporate financiers to remain complacent. A recent 200-page Credit Suisse treatise compared those cash-hoarding U.S. companies with corpulent seals. "Cash in a difficult time is like blubber on a seal: protecting the animal during the harshness of winter, but turning bothersome in spring and summer," read the report. "We believe that U.S.



DATA: BLOOMBERG, MOODY'S INVESTORS SERVICE

companies are now ending their recent enforced hibernation. Survival mode is over and Corporate America is breathing easier .... Now it's time to cash out."

James Grant of *Grant's Interest Rate Observer* dedicated his June 11 newsletter to screening for big names like Wal-Mart Stores and Kimberly-Clark that throw off tons of cash and yield more than overrated, overprinted Treasuries. (Bonds have outperformed stocks in the past six months, even though 10-year government bills offer just 2.9 percent.) "As for the government's well-exhibited capacity to conjure money," writes Grant, "we can't think of a better reason not to own government securities. Hence our preference for ... big, stable, dividend-paying corporations."

Grant points to Darden Restaurants, which runs the Olive Garden and Red Lobster chains. He notes its 25 percent return on equity and 2.3 percent dividend yield. Darden holds more cash on its books than it knows what to do with: $249 million as of May, a quadrupling over the same period last year. On June 23 the company goosed its dividend by nearly a third, to 3.1 percent. Yet the stock is still some 22 percent off its year's high. Investors are not impressed—at least not yet.

Or witness how Pfizer, the acquisitive megapharmaceutical behind the Lipitor and Viagra brands, yields 5 percent to no apparent avail: Its shares are near their low for the year. In downgrading the stock in late June, Goldman Sachs said management was not taking enough shareholder-friendly action to unlock embedded value (Goldman recommended a sizable dividend increase). Indeed, last year Pfizer cut its dividend to help fund its $68 billion purchase of Wyeth. One thousand shares of Pfizer bought 10 years ago would now be $29,115 underwater—$23,638 when factoring in the dividends it has since paid out. The drugmaker, which now has $26 billion in cash on hand, is practically inviting a long-suffering institutional shareholder to try to shake loose its cash.

Unfortunately, shareholder activists are still smarting from the agitations that were all the rage during the bull run of 2003-2007. In 2006, activist Carl Icahn prevailed upon Time Warner to buy back $20 billion in stock that has since fallen 22 percent. Bill Ackman similarly prodded Target to pay too much for its shares in a campaign that the discount retailer ultimately had to scotch to conserve cash. The epic tide of dividend cuts in 2008 and 2009 further soured investors on the efficacy of unlocking excess balance-sheet cash.

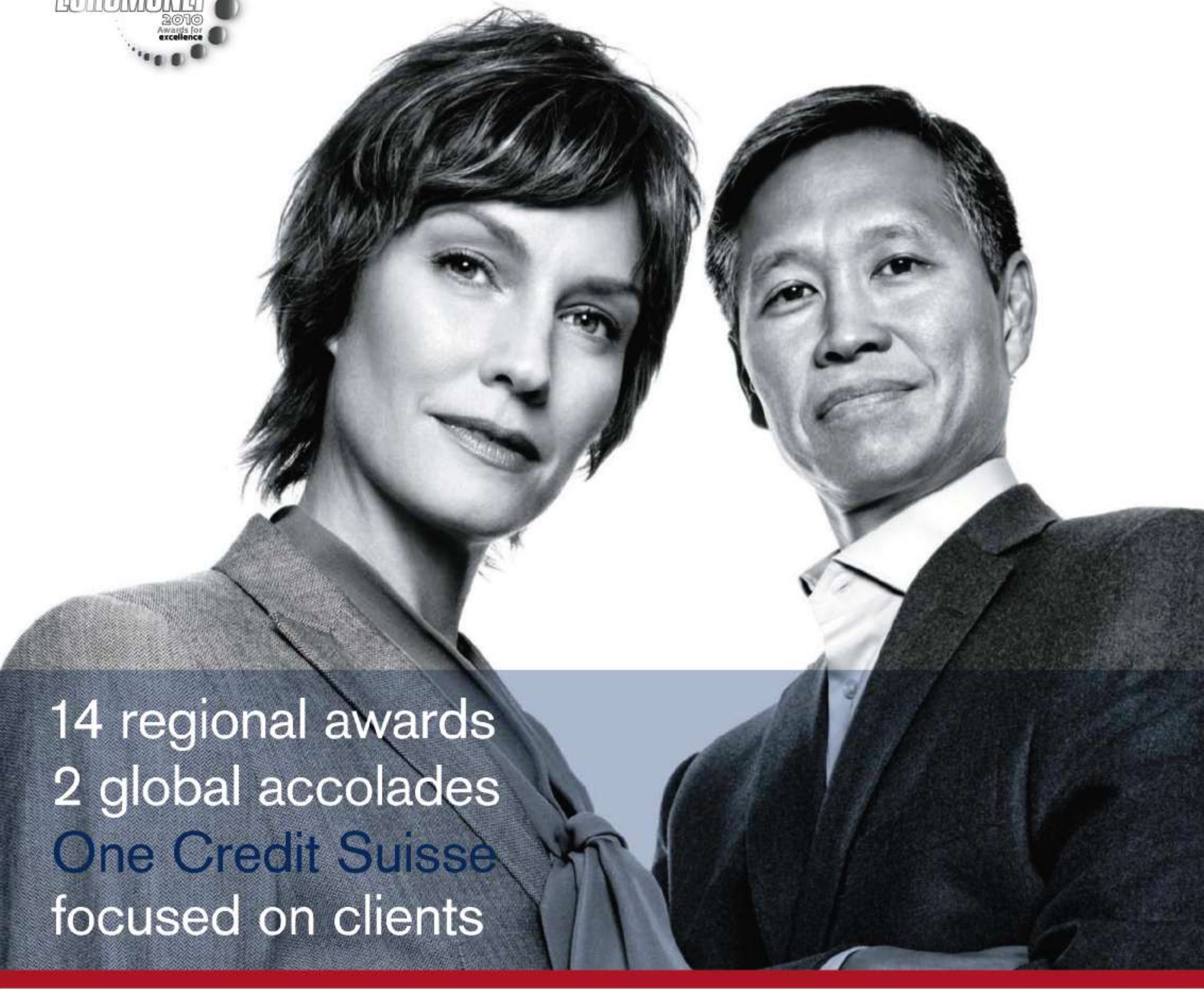
Sylvan Chackman, global co-head of prime brokerage at Bank of America, says he expects hedge funds to stir this quarter. "They need to put their capital to work to generate returns," he says. About 48 percent of the 2,000 hedge funds in the HFRI Fund Weighted Composite Index are still below their so-called high-water marks. Until they return to that critical threshold, they are unable to charge investors performance fees. Stay in the hole long enough, and you might as well close up and start anew elsewhere.

Those hedge funds that do plan to stick around, however, will need a story, a game plan, a lever to pull—especially if we really are on the precipice of a chronically bad time for market returns. When it becomes clear that every point of return matters, fund managers will fight to wrest back every dollar of excess cash from their portfolio companies. There will be open letters, moral and immoral suasion, proxy battles galore.

And there should be, because CEO vanity springs eternal. Consider Eastman Kodak, which blew upward of $15 billion on abortive acquisitions and product development in the 1980s and 1990s as its core film business shriveled. The whole company is now worth just $1 billion; wouldn't shareholders have preferred to get some of that $15 billion back? The obverse of that example is a company that also reinvested, ignoring an archrival's taunt that it should close shop and give its money back to shareholders. That company is Apple, and the problem today is that every chief executive officer wants to be Steve Jobs. It will be up to the hedge funds and other activist players to remind them that there's only one Steve. So hand over those dividends. B

—With Saijel Kishan, Katherine Burton, Jeff Kearns, and Nick Baker

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Global Economics



Avon Products suspended four executives in its investigation of bribery in China

RICKY WONG/SINOPIX

Bribery is Losing Its Charm in China

▶ **Western multinationals face increased scrutiny from American and Chinese prosecutors**

▶ **The problem is reconciling Chinese customs with the "culture of compliance"**

In late June, more than 150 executives from **Siemens**, the German industrial giant, met in Beijing to discuss compliance with Chinese and U.S. anticorruption laws. That a multinational would spend millions to strategize about avoiding bribery charges in a country where bribery is rampant shows how much business is changing in China.

U.S. prosecutors, empowered by the Foreign Corrupt Practices Act of 1977 (FCPA) to investigate allegations of bribery anywhere in the world, have been stepping up their activities in China, where a tradition of gift-giving in business often degenerates into serious graft. The FCPA bans U.S. companies from bribing foreign officials. It also applies to foreign companies like Siemens that list their securities on U.S. exchanges. Companies that violate the FCPA face millions in fines, and executives can go to prison. U.S. authorities have upped the number of bribery cases they pursued to a resolution around the world, from 11 in 2005 to 34 last year, according to Trace International, a nonprofit anti-bribery group based in Annapolis, Md. In a report released June 17, Trace pointed out that China, with 25 cases completed since enactment of the FCPA, fell behind only Iraq and Nigeria for the most international corruption prosecutions. Citing a World Bank estimate that more than $1 trillion in bribes are paid each year, U.S. Attorney General Eric H. Holder Jr. on May 31 called "combating corruption one of the highest priorities of the Department of Justice."

Entertainment and gift-giving, a business tradition, often degenerate into serious graft

Chinese prosecutors, meanwhile, are getting more aggressive under their own antibribery laws, says Patrick M. Norton, a partner with Steptoe & Johnson who focuses on international mediation. Earlier this year a Chinese court handed down prison sentences for four employees of London-based mining company **Rio Tinto** for taking bribes from Chinese buyers of iron

ore. In other cases, Norton says, there's a "blowback" problem when Chinese authorities take note of a U.S. investigation: "You get an FCPA prosecution involving payments in China. The company has paid huge fees to settle. They think it is over, and now they are being pursued in China" on essentially the same charges.

$1.0 TRILLION

Estimated amount of bribes paid worldwide

U.S. investigators have notched a number of recent victories. In 2008, Siemens pled guilty to FCPA violations in China and numerous other countries. It agreed to pay a $450 million fine. In 2009, U.S. label and reflective material maker **Avery Dennison** agreed to pay a civil penalty of $200,000 after the Securities & Exchange Commission filed a civil action alleging violation of the FCPA. Avery's Chinese subsidiary had bankrolled sightseeing trips for local officials.

In another case last year, **UTStarcom**, a telecom equipment manufacturer, resolved U.S. investigations by agreeing to pay $3 million in fines and penalties. Its Chinese unit had spent almost $7 million on 225 trips for Chinese government employees. This spring cosmetics marketer **Avon Products** suspended four executives as part of an internal investigation into possible bribery in its China division. Avon had already alerted U.S. authorities to its in-house probe in 2008.

And in late June, the Chinese press reported that **Johnson & Johnson** was under investigation by local prosecutors for allegedly bribing a Chinese drug regulator. J&J says it has not heard anything from the Chinese government. A person familiar with the matter says the U.S. is investigating J&J's medical device unit. Neither the SEC nor the Justice Dept. would comment.

"One of the problems companies run into is reconciling Chinese customs of entertainment and gift-giving with the culture of compliance," says Mark F. Mendelsohn, who from 2005 until earlier this year oversaw Justice Dept. FCPA prosecutions and now works at the law firm Paul Weiss in Washington. The customs can be as harmless as giving lunar cakes during the autumn moon festival. Some companies, though, go a lot further. **Lucent Technologies** provided 315 trips for Chinese officials to the Grand Canyon, **Universal Studios**, and **Disneyland**. The company characterized the travel as factory inspections and training. In 2007 it was charged under the FCPA. Ultimately, Lucent entered into a settlement with Justice and agreed to pay a $1 million fine.

U.S. companies must also heed the Sarbanes-Oxley Act of 2002, which made it harder to hide bribery by keeping separate books. In 2005 the medical-test maker **Diagnostic Products** was charged with paying $4.8 million in bribes to Chinese hospitals and administrators and violating record-keeping rules. The company agreed to pay $2 million as part of a plea agreement.

Foreign companies sometimes can get tripped up by using local middlemen to help secure deals. Hiring representatives can be an entirely legitimate way to cut through red tape. It can also lead to questionable practices. "Often the third party is created solely for paying the bribe; there is no other business reason," said Nathaniel B. Edmonds, assistant chief of the Justice Dept.'s fraud section, during a talk at an anticorruption conference in Shanghai on June 23. What's more, under FCPA a U.S. company is as liable for the actions of a middleman as it is for its own employees.

The temptation to offer a bribe in China is strong because the practice is so common. The risks of getting caught, however, are increasing rapidly.

—By Dexter Roberts with Justin Blum

The bottom line *The U.S. is policing the activities of big multinationals in China more aggressively, with China's own prosecutors sometimes following suit.*

Quoted

"You have four difficult choices to make if you really want to move the dial on fixing the California budget deficit. You either cut education, cut health care, cut public safety, or increase taxes. There is going to have to be some type of combination of all four."

—John Chiang, controller of the State of California



Wealth

Russian Tycoons Weigh Their Succession Plans

▶ **The oligarchs' children could inherit billions in assets of Russia Inc.**

▶ **"The heirs may not want to be the hamster in the wheel"**

For Alexander Lebedev, hardly a week goes by without a call from a government security agent or cop angling for a chunk of his $3.4 billion fortune. It's not a lifestyle he wishes for his elder son, Evgeny, 30. (His other son is 1 year old.) "Business in our country is like wrestling with bears," says Alexander in his office in an elegant Moscow mansion. "I'm not sure you'd want to pass that on to your son—would you?"

Although just 50, Lebedev is already pondering a dilemma that will confront the entrepreneurs and industrialists who became superwealthy in the chaotic early years of post-communist Russia: What will become of their billions—sometimes acquired through unsavory deals—and how should they plan their successions? By 2020 the average age of Russia's richest 50 businessmen will exceed 60. That's young in most developed countries, but in Russia the average lifespan for men is 62. (For women, it's 74, though Yelena Baturina, a construction magnate and wife of Moscow Mayor Yuri Luzhkov, is the only woman among Russia's top businesspeople.)

Succession planning is fraught with tension in family-controlled companies everywhere, and perhaps nowhere more than in Russia. In this transition economy, corruption is rife. According to Transparency International, Russia ranks with Venezuela, Cambodia, and Sierra Leone on its scale of perceived corruption. Business owners say they can never be sure that the police, courts, and government will protect their rights. Political connections typically are more important than legal documents or equity stakes for survival. The risk is that as property shifts to the next generation, the Kremlin or corporate predators could seize assets held by heirs lacking their fathers' connections. "There is almost no such thing as private property in Russia," warns Stanislav Belkovsky, a

BRIBERY DATA: WORLD BANK

Keeping Control of the Kopeks



Mikhail Prokhorov

Age: 45

Est. net worth:

$17.9 bn*

Main holdings: New Jersey Nets basketball team, Rusal (world's largest aluminum producer); Polyus Gold (Russia's No. 1 gold producer); Renaissance Capital (Moscow-based investment bank)
Family status: Single, no children. "I really would be quite happy if he got married," Prokhorov's sister, Irina, told Bloomberg TV. "When we celebrate his birthday, my toast is: 'Please give me nephews!' "



Vagit Alekperov

Age: 59

Est. net worth:

$10.7 bn*

Main holdings: Lukoil (Russia's No. 2 oil company)
Family status: Married with one son. He hopes his son, Yusuf, 20, will join the company and eventually become CEO. "He is ready to be an oilman, and he must become one," he told Russia's *Itogi* magazine.**



Vladimir Potanin

Age: 49

Est. net worth:

$10 bn*

Main holdings: Norilsk Nickel (world's biggest nickel and palladium producer); Russian lender Rosbank; Prof-Media, a media company
Family Status: Married, three children, ages 11-26, including jet ski champ Anastasia (below). Plans to give most of his fortune to charity. "An inherited billion kills a person, depriving him of a meaning in life," he told Bloomberg News.



Viktor Rashnikov

Age: 61

Est. net worth:

$8 bn*

Main holdings: Magnitogorsk Iron & Steel (Russia's third-biggest steelmaker)
Family status: Married, two daughters and at least three grandchildren. "Running such a company requires a professional and a man. Magnitogorsk isn't a cake factory. My hope is for grandsons to take over," he told Russia's *Vedomosti* newspaper.***



Alexander Lebedev

Age: 50

Est. net worth:

$3.4 bn*

Main holdings: Aeroflot, Ilyushin Finance, opposition newspaper *Novaya Gazeta*, Britain's *Independent* and *Evening Standard* newspapers.
Family status: Divorced, two sons, ages 30 and 1. He supports his older son's interests in London. "I never pushed him on [business]. He actually likes art. Newspapers, yes, but they aren't a business for us," says Lebedev.

DATA: BLOOMBERG, FINANS, ITOGI, VEDOMOSTI
*ESTIMATES BY RUSSIA'S FINANS BUSINESS MAGAZINE
**INTERVIEW, NOV. 27, 2006
***INTERVIEW, SEPT. 7, 2007



former Kremlin adviser who now heads Moscow's National Strategy Institute, a think tank. "It's no harder for the authorities to fire an owner than it is an employee." Example: After a 2007 coal mining accident in Siberia that killed more than 100 people, Georgy Lavrik, the pit's general director, who had inherited the asset from his father a year earlier, sold his 40 percent stake when the regional governor insisted on an ownership change.

Russia's billionaires are exploring a variety of options for transferring their wealth. Telecom magnate Vladimir Yevtushenkov has put his son and daughter in executive roles and hopes they will eventually take over his empire. Vladimir Potanin pledges to give his fortune to charity, including a stake in Russia's biggest mining company, by 2020. (He plans to leave his three children comfortable but wants them to carve out their own futures.) Boris Zingarevich, 50, and his partners sold 50 percent of **Ilim Pulp**, Russia's biggest paper producer, to **International Paper** in 2006. At the time, his son, Anton, was more interested in investing in soccer. Anton, 28, has since joined his father's **Ener1**, a New York-based maker of lithium-ion batteries for electric cars, calling the company "revolutionary and interesting."

Although he won't discuss details of his plans, Lebedev is investing in property. "The easiest asset to transfer to children will be cash in accounts outside of Russia, such as in Swiss banks, and property," he says. An ex-KGB agent who worked in London as the Soviet Embassy's economic attaché, Lebedev owns a house near Hampton Court Palace outside London, a 13th century castle in Italy, a château near Paris, and the Swiss Château Guetsch, a castle with its own funicular and a luxury restaurant.

The risk is that as property shifts to the next generation, the Kremlin or corporate predators could seize assets

Lebedev still holds assets in Russia, including about 19 percent of airline **Aeroflot** and 26 percent of aircraft leasing company **Ilyushin Finance**. Yet rather than involve Evgeny in his Moscow businesses, Alexander is sponsoring his son's asset purchases and philanthropy in Europe. A graduate of the London School of Economics who also studied

CLOCKWISE FROM BOTTOM LEFT: MODESTO BEE/ZUMA PRESS; ZUMA/NEWSCOM; ALEXANDER ALESHKIN/EPSILON/GETTY IMAGES; GAMMA/EYEDEA/ZUMA PRESS; YURI BELINSKY/ITAR-TASS/NEWSCOM; DAVE M. BENETT/GETTY IMAGES; VALERY LEVITIN/KOMMERSANT

art history at the Royal Academy of Arts, Evgeny is chairman of the Raisa Gorbachev Foundation, which helps children suffering from cancer. He has invested in London's upscale Sake No Hana restaurant and Wintle fashion house and runs the *Evening Standard* and *Independent*. His father bought the financially troubled papers for one pound each.

So far the younger Lebedev has shown no interest in returning to Russia to run his father's businesses. "The heirs may not want to be the hamster in the wheel," says his father. (Evgeny declined to comment.) Only 36 percent of Russian business owners surveyed by UBS and Campden Research say their children are involved in their companies. If the next generation isn't interested, the companies will simply hire professional managers, says Ruben Vardanian, chairman of investment bank Troika Dialog. Meanwhile, most wealthy business owners are investing in international education for their children.

Vardanian thinks this experience could bode well for Russia Inc. If they can avoid family strife and meddling from the Kremlin or corporate rivals, the oligarchs' children may be better prepared to run businesses than their fathers were when they acquired them. Predicts Vardanian: "Russian companies will become more global, and the children will be CEOs of global companies."
—Yuriy Humber and Maria Kolesnikova, with Ilya Arkhipov

The bottom line *The transfer of wealth from one generation to the next is fraught with risk but may wind up being good for Russian corporations.*

Recovery

Thailand: Empty Beaches, Busy Factories

▶ After the riots, tourists keep their distance, and exports boom

▶ "Companies are aware Thailand is prone to political unrest"



After the riots: Thais gather in front of a torched shopping mall

Here's a conundrum: While Thailand's famous tourist industry is flat on its back, the economy is headed for 6 percent growth this year, according to analysts at Forecast in Singapore. The stock market is up 11 percent, an achievement when most of the world's bourses are sharply down. And the baht, Thailand's currency, has crept up almost 3 percent since the start of the year.

You wouldn't suspect such resilience if you strolled through downtown Bangkok. There the sprawling CentralWorld shopping center lies partially in ruins, torched by antigovernment protesters on May 19. A memorial of life-size plaster figures of people holding hands stands close by, with greetings left by would-be shoppers. "I ♥ CW," writes one. "Please come back soon, hopefully with a skating rink again."

The protests left at least 89 people dead. There's been "a huge decline in forward bookings," says William E. Heinecke, chief executive officer of Minor International, a Bangkok-based company that operates 16 Thai hotels. Minor shut its Four Seasons hotel in Bangkok for more than a month because of the protests, and occupancy rates at the reopened facility are now between 20 percent and 30 percent. Priscilla Andre, CEO of Pavilions Resorts, rents out 25 luxury villas on the island resort of Phuket. About half of her villas are occupied, she says, compared with about 70 percent a year ago. Radhika Rao, an economist at Forecast in Singapore, figures the dropoff of tourism will shave as much as a full point off Thailand's growth, and travel executives fear the protests could resume at election time early in 2011. The Thai government, meanwhile, says tourist arrivals could still edge out last year's number.

Yet even with the industry in shambles, Rao expects the economy to expand at a healthy clip in 2010. Although tourism is the most visible prop to the Thai economy, it makes up only 6 percent of gross domestic product. Exports of farm products and manufactured goods comprise two-thirds of GDP. The advantages for Thai exporters are many, says Peter John van Haren, whose company, Wiik & Hoeglund, ships drainage pipes from Thailand to customers around the region. "All the infrastructure is built up," says Van Haren, "the shipping companies, the ports, customs."

U.S. and Japanese automakers in particular are ramping up operations in Thailand, which has positioned itself as a manufacturing hub for Southeast Asia. On June 24, Ford Motor announced a $450 million plan to produce its Focus car in Rayong province 165 miles south of Bangkok. On June 30, Nissan said it will assemble its compact, the March, in Thailand. Toyota Motor and General Motors will probably expand Thai production as well. "We remain optimistic," says Ray G. Young, GM's president of international operations. "Our business and expansion plans will continue in Thailand without delay."

FROM LEFT: MANAN VATSYAYANA/AFP/GETTY IMAGES; TF1/SIPA PRESS

Mickey D: Minorities are the majority page 22 ▶

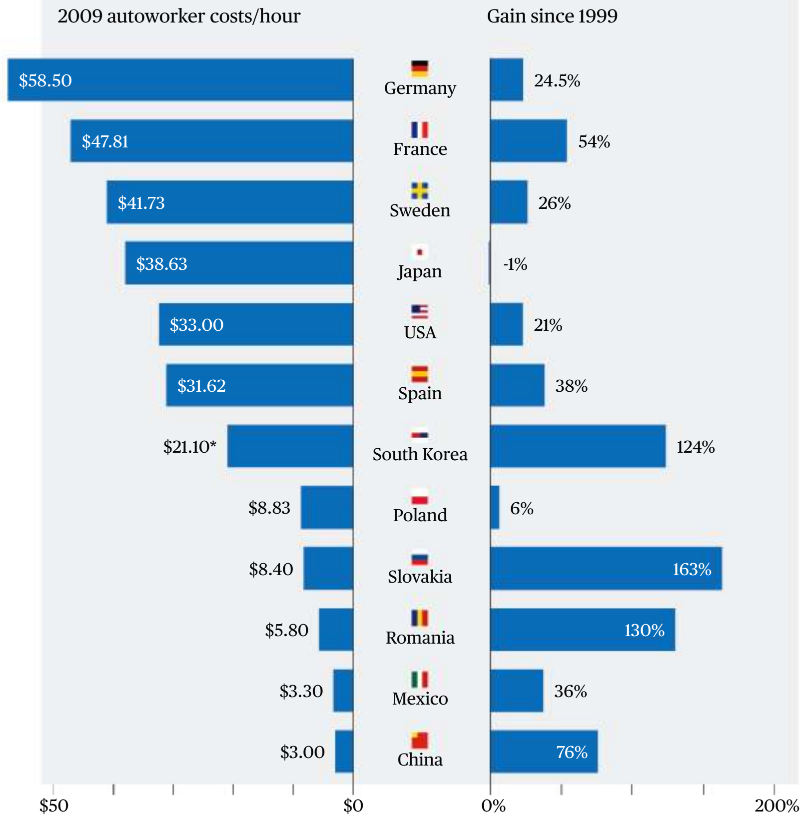
Thai exports are likely to grow 25 percent to 30 percent this year, according to Rao. "Manufacturers are fully aware Thailand is prone to such political unrest," she adds, "and most of them are O.K. with it." Not counting the recent riots, there have been 10 coups in Thailand since 1971. The big exporters like GM and Ford survived those, too. —*Bruce Einhorn and Liza Lin*

The bottom line *The bloody riots that paralyzed Bangkok have ruined tourism for this year, but manufacturing and exports are booming.*

Global labor

The Gulf in Auto Wages

In June, workers at a Honda plant in China staged a strike that brought the Japanese company to the negotiating table. The result was a 24 percent increase in pay before overtime and side benefits. Compare that with the wage for German autoworkers, and you get a sense of the discrepancies that still exist between emerging markets and developed nations.



*FOR 2007. DATA: EUROPEAN WORK COST INDEX, BLS, CENTER FOR AUTOMOTIVE RESEARCH

Labor

France's Guardian of Aggrieved Workers



▶ The *conseils de prud'hommes* hear out the axed and the ax-wielders

▶ Jérôme Kerviel's old boss is using the tribunals to challenge SocGen

What takes place on *Temptation Island* doesn't exactly look like work. The reality-TV show features couples frolicking on a tropical island where scantily clad men and women try to tempt them to stray from their mates. French labor tribunals, however, have ruled that the contestants on the French version (the show originated with the Dutch) were entitled to overtime and other benefits. "We have won every case," says Jérémie Assous, a Paris lawyer who says the tribunals, known as *les conseils de prud'hommes*, have awarded an average $33,000 apiece to more than 100 of his clients who were contestants on the show.

In France, a summons from *les prud'hommes* usually brings bad news. The tribunals, which date back to the Middle Ages, rule against employers in 71 percent of the more than 200,000 cases they hear annually, according to the Justice Ministry. A suit by a disgruntled worker may seem trivial compared with strikes and boss-nappings, says Paris labor lawyer Joël Grangé. "But it's still a real worry," he says, as it adds to the inflexible labor arrangements that make companies reluctant to hire in France. In a survey for the American Chamber of Commerce in France, 87 percent of the local subsidiaries of U.S. companies said it was harder to dismiss employees in France than in most other European countries.

Judges for the *prud'hommes* are chosen every five years in local elections held nationwide. Half the seats are reserved for candidates nominated by unions and the other half for candidates backed by employers' groups. "I wouldn't say the judges are biased toward workers," says Yasmine Tarasewicz, a lawyer in the Paris office of Proskauer Rose who represents employers before the tribunals. French labor laws are so complex that employers often trip on technicalities such as failing to send dismissal notices by certified mail, she explains.

Most *prud'hommes* complaints are filed by workers dismissed for incompetence or misconduct, the only grounds for which French employees can be fired after a probation period. Workers laid off for economic reasons generally get negotiated severance packages. Most employees' lawyers receive a small upfront payment and a percentage of any award. Many dismissed workers argue that their problems were caused by deficient management, a charge Grangé says is often difficult for employers to disprove.

Not even the Mouvement des Entreprises de France (Medef), an employers' association that trains companies how to avoid running afoul of the tribunals, has been spared. In May it was ordered to pay $865,000 to a former executive whom the group fired in 2008. Medef declines to comment on the ruling, which it has not appealed.

The tribunals have also figured in the case of Jérôme Kerviel, the former Société Générale trader who stood trial in June over the biggest rogue-trading loss in history. Moussa Bakir, a Paris stockbroker who carried out billions in trades for Kerviel, won a *prud'hommes* judgment last year restoring his $1.2 million bonus. Bakir's employer, a brokerage then owned by Société Générale, had refused to pay it, but Bakir contended he didn't know Kerviel's trades weren't authorized. Eric Cordelle, Kerviel's immediate supervisor, who was fired after the rogue trades were discovered, is challenging his dismissal before a Paris *prud'hommes* tribunal.

On a recent afternoon, judges from the Paris tribunal were working their way through a docket of 32 cases in a drab building near the Gare du Nord. In one courtroom, a four-judge panel heard the case of Thibault Imhoff, who was fired in 2008 after only 4½ months on the job as director of the Paris campus of an arts-management school. As Imhoff fidgeted on a bench, a lawyer for the school presented a 16-page list of complaints about his performance. Imhoff's lawyer called the criticisms "absolutely unfounded" and demanded $78,000 compensation from his client's former employer. "They behaved very rudely," his lawyer said. The court will rule in October.

In the case of *Temptation Island*, *prud'hommes* judges ruled that flirting while being filmed nearly round-the-clock for 12 days qualified as work. "Attracting a member of the opposite sex requires concentration and care," France's top appeals court ruled last year in upholding an earlier tribunal ruling that lawyer Assous obtained for three contestants. French network TF1 cancelled *Temptation Island* last year, although a spokeswoman says the decision was unrelated to the ruling. Assous says he's now pursuing similar cases against other reality shows. B —*Carol Matlack*

The bottom line *The conseils de prud'hommes contribute to a rigid labor system that discourages employers from hiring French workers.*

Drawing Board



Tom Keene's EconoChat

Tom talks with MIT professor **Simon Johnson** about banks, China, and financial risk

A year ago you described the banks' success in stonewalling the regulators as "the quiet coup." How did the banks make out in the recent financial regulation bill?
I think the big banks have won. They won with a terrific smokescreen, so there's a lot of pretense. There's actually some sort of reform going on. But it's hats off to them. Too bad it hurts the rest of us.

A recent blog of yours talked about the next Chuck Prince running banking. What did you mean?
Well, Chuck Prince himself said to the Financial Crisis Inquiry Commission that he didn't really understand what was going on. So sooner or later, even the best-run banks will fall into the hands of somebody who doesn't know what he or she is doing.

You know, year before last if anybody was too big to fail, it was an insurance company.
Good point. The legislation we [wanted] would have put sieve caps on all financial institutions, not just banks.

You just got back from Beijing. What did you learn?
I was there during the G-20 Summit [in Toronto], and it seemed to me that the G-20 countries were assuming China will grow fast and that will give us space for our fiscal austerity without that being too costly. In China, they're much less convinced they can continue to grow at these rates. The biggest China bears I've met recently were in Beijing. B



Keene hosts Bloomberg Surveillance *7-10 a.m., 1130AM in New York, XM 129, Sirius 130.*

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Companies&Industries

An Egyptian Developer Shifts to the Continent



Sawiris' El Gouna development on Egypt's Red Sea

▶ Billionaire Samih Sawiris has big plans for resort villages in Europe

▶ "Come on, it gives you a kick to be building a town"

Egyptian billionaire Samih Sawiris is at ease developing a resort town in the Swiss Alps or a lakeside oasis in Egypt below sea level. In fact, he's doing both. "Sand and snow are the same," he says, explaining the expansion in Europe of his company, **Orascom Development Holding**. "These are the attractions that bring people to buy a house and bring people to stay at a hotel, and the hotel is the job creator that makes people want to come and live in the town," he says. "Since we provide everything, we make money."

Even as the global real estate crisis has forced many developers to cancel or curtail projects, Orascom is expanding far beyond the Mideast. Sawiris (lower right) is betting on a model that served him well in the past: building resorts from scratch and expanding them into small towns. Besides profiting from constructing and selling the apartments and owning hotels, Orascom gets continuing revenue by providing everything from power grid maintenance to operating golf courses. It even handles garbage collection.

His first operation, El Gouna on Egypt's Red Sea, started as nothing more than a few houses on the beach and a hotel. It's now a town of about 35,000 permanent residents, 16 hotels, international schools teaching 1,500 students, a winery, and a brewery. It even has a soccer club competing in Egypt's premier league, says Sawiris, a graduate of the Technical University of Berlin, at his office in Cairo overlooking the Nile.

Sawiris moved to replicate the El Gouna model in Jordan and Oman, then decided to go global. In 2009, a year after moving Orascom's headquarters to Switzerland, he started building the An-



SAWIRIS: ALESSANDRO DELLA BELLA/KEYSTONE



Hollywood loves the White House page 33 ▶

drematt resort complex in the Alps. This year he announced projects in Montenegro, Britain, and Romania, as well as a plan to raise capital to fund the expansions.

"The fact that we became an international company listed in Switzerland is really to facilitate our expansion program outside Egypt," he says. "There is no doubt that you as a Swiss company are more welcome in Montenegro" than an Egyptian developer would be.

Samih is the second of three brothers who make up Egypt's richest dynasty. Naguib, the eldest, heads **Orascom Telecom Holding**, the biggest mobile phone operator in the Middle East as measured by users. Nassef, the youngest, is chairman of **Orascom Construction Industries**, the region's largest publicly traded builder.

For Samih, developing on the Continent means moving slower than normal, says Patrick Gaffney, a real estate analyst at HSBC Securities Egypt. "The regulations are much stricter," he says. "Even just simple things as when can you construct and when you can't. Those things will be a challenge for them, which I think they will be able to overcome, but it definitely raises a risk."

It's an obstacle that Sawiris plays down, saying that having numerous projects in the pipeline will help offset a slowdown at any single development. Orascom's net income rose 20 percent in 2009, to 138.6 million Swiss francs, or $130.2 million, and Sawiris says he expects similar results this year. He's confident Orascom will meet his target of 100 million francs in sales at Andermatt this year, helped by the fact that Switzerland has avoided the brunt of the global real estate slump.

"We have been protected," says Sabine Schofield, managing director of commercial property consultants Schofield & Partners in Geneva, referring to the Swiss property market. "We've had a steady growth rate in consumer spending. There are positive indicators despite persistent uncertainty in surrounding countries."

The Andermatt project will offer up to 30 private villas, 490 apartments, and 6 hotels, as well as a golf course and 35,000 square meters of commercial space. The first apartment will be ready for occupancy in 2014.

Rather than waiting for pre-sales of apartments to provide the equity for all of the hotels Sawiris wants to build, he will accelerate development by raising up to 200 million Swiss francs in additional capital at Orascom Development before the end of 2010; of that, 85 million francs will come from his own money.

Sawiris is betting that will better position Orascom to benefit as Europe's economy strengthens. Still, he says profit isn't his only motive. "Come on, it gives you a kick to be building a town, doesn't it?" he says. "And you know that you're the only one who knows how to do it."—*Alaa Shahine and Mahmoud Kassem*

The bottom line *Billionaire Samih Sawiris is expanding resort development to Europe, and keeping his Middle East business model intact.*

Retailing

Martha Stewart's Carpet Coup

▸ Stainmaster's defection from Home Depot to Lowe's gives her a boost

▸ Stewart gains "categories...we never could have done at Kmart"

The latest battle in the war between **Home Depot** and **Lowe's** has produced an unlikely winner: Martha Stewart. Her company, **Martha Stewart Living Omnimedia**, this month began selling its branded carpeting in Home Depot's nearly 2,000 U.S. stores.

That's no small victory. Home Depot led all rivals in carpet sales to homes and small businesses last year, generating U.S. sales of $922.5 million, estimates Santo Torcivia, founder of Market Insights/Torcivia. He predicts industry sales will advance 9.8 percent in 2010, to $10.3 billion.

The ultimate homemaker's company, which also produces *The Martha Stewart Show*, is betting big on Home Depot after ending a partnership with **Kmart** that accounted for 10 percent of its 2009 sales. Martha Stewart Living already sells patio furniture and its paint brands at Home Depot stores. After the carpet rollout, it will add a line of cabinets and countertops in September, followed by gardening tools and Christmas decorations before yearend.

"We've got a lot of product categories at Home Depot that we never could have done at Kmart," says Robin Marino, chief executive officer in charge of merchandising at Martha Stewart Living Omnimedia. "Our goal is to provide the consumer with everything that they need to decorate their home."

Martha Stewart can thank a move by **Invista**'s Stainmaster unit for her good fortune. Stainmaster had been a major Home Depot carpet brand since 1996. Invista recently dumped the leading home improvement retailer to boost its sales through No. 2-ranked Lowe's and a string of smaller distributors. Home Depot managers figure Stainmaster was under pressure by its independent carpet dealers, who had trouble competing with the big box retailer's low prices. "We were selling a lot of carpet at very good prices," says Gordon Erickson, Home Depot's senior vice-president for decor. "We were a bit surprised."

When Stainmaster severed ties, Erickson called Stewart's company in February. After conducting consumer research, the new partners extended Martha Stewart Living carpets' stain warranty to lifetime–besting Stainmaster's seven years. They also worked with the Stewart flooring maker, the **Shaw Industries Group** unit of **Berkshire Hathaway**, to improve softness.

Home Depot plans to begin national advertising for the brand by Labor Day. "It is brilliant for Martha Stewart and smart for Home Depot," said Candace Corlett, president of consulting firm WSL Strategic Retail. "Home Depot is the go-to place for home repair and some home decorating. Now they've added a decorator to help."
—*Chris Burritt*



The bottom line *Selling its carpet in Home Depot is a big win for Martha Stewart Living Omnimedia.*

FROM LEFT TO RIGHT: MOISES DE PENA/GETTY IMAGES; BUENA VISTA PICTURES/EVERETT COLLECTION; PFIZER/BLOOMBERG



A raided drug-counterfeiting laboratory in China

Pharmaceuticals

With Pirates, It Pays to Be Civil

▶ To battle counterfeiters, Pfizer is adding civil suits to its arsenal

▶ "If we find you, we're taking your money away"

With the millions he made peddling fake Viagra over the Net, Martin Hickman bought a diamond-studded Rolex, a Bentley, and a beachside villa on Spain's Costa del Sol. **Pfizer** aims to make sure the Briton never gets to enjoy them.

The spoils of Hickman's crimes helped settle a trademark infringement lawsuit brought by the world's biggest drugmaker. The case is an example of a new approach Pfizer is taking to battle counterfeiting of prescription drugs, an industry scourge that's almost doubled in the past five years to around $75 billion, according to the New York-based Center for Medicine in the Public Interest. Pfizer, whose erectile dysfunction pill Viagra is one of the most copied drugs, once relied on local authorities and criminal courts to hunt down and prosecute offenders. Now it's taken matters into its own hands.

The New York-based drugmaker has hired former U.S. Customs officials, FBI agents, Turkish narcotics experts, and Hong Kong police to track down fakes to their source and assemble evidence that can be used to bring civil suits against the people who make and distribute them. "The point is to make them realize that there's no sense from a business perspective, because if we find you, we're taking your money away," says John P. Clark, a 28-year U.S. law enforcement veteran who now serves as Pfizer's chief security officer.

Since 2007, Pfizer has spent $3.3 million on investigations and legal fees and recovered about $5.1 million. It expects to collect an additional $5.3 million from ongoing cases. Pfizer says it has prevented about 58 million counterfeit pills from reaching patients since 2004.

Hickman was one of the first test cases of Pfizer's tougher stance. The Londoner was sentenced to three months in jail in 2007 after he ignored an earlier court order to stop marketing bogus Viagra and another impotence drug over the Internet. Authorities figure Hickman sold more than $8.9 million in fake meds between 2003 and 2007.

Hickman's website kept operating while he was in jail, says Pfizer. So the company won permission from the High Court in London to raid his home and office and freeze his assets. On the day he was released, Pfizer slapped Hickman with a civil lawsuit for infringing its trademarks. Within weeks, lawyers for the two parties hammered out a $2 million out-of-court settlement, giving Pfizer a $769,600 net gain on the money it spent investigating and suing him. In a second criminal prosecution last year, Hickman received a two-year sentence for money laundering and supplying false medicines. "Hopefully we made an impression on Mr. Hickman as to the consequences of counterfeiting our product," says Clark. Attempts to reach Hickman through his lawyer were unsuccessful.

International criminal syndicates increasingly are turning to prescription drugs because they offer higher returns and lower risks than narcotics. Aline Plançon, an Interpol officer who works with police worldwide on counterfeiting, estimates $1,000 spent making heroin can earn a return of $20,000. The same investment in copied medicines can earn as much as $450,000. Pirates "know that the risks of being punished are low compared to the benefit," Plançon says.

That calculus is starting to change, even in China, the center of the global trade in counterfeit drugs. In December 2008 a Chinese court sentenced Zhou Ju, the head of a manufacturing and distribution network for fake pills, to 17 years in prison, the nation's longest term for the crime, and fined him $732,000. Zhou was arrested during a raid on his factory in Jining, Shandong province, following a 16-month investigation led by Pfizer and the local police. Pictures of Zhou's operation show dirty, dust-covered mixing vats, tubs of blue dye used to color Viagra pills, and rolls of foil used to seal blister packs, printed with the logos of Zithromax, a Pfizer antibiotic, and Lipitor, its best-selling cholesterol drug.

That's evidence of an ancillary industry supplying fake packaging, says Paul Newton, a University of Oxford researcher who studies counterfeits from an office in Vientiane, Laos. "It's not just a one-man show," he says, "it's all interlinked with different nefarious business activities." —*Simeon Bennett*

The bottom line *Pfizer's new tactics against fake drug peddlers have allowed it to recoup more than $5 million. That's still a fraction of its lost sales.*

Quoted

"Football is the only single language that reaches both Asia and Europe."
—Dilbagh Gill, head of sports at Mahindra Satyam, the Indian outsourcing firm that's managing information technology at the World Cup, on why global companies spend heavily on soccer sponsorships



Advertising

Ethnic Marketing: McDonald's Is Lovin' It

▶ The BBW50 chain taps Latino and black culture for mainstream ads

▶ "Most companies think they can box in Latinos...African-Americans"

The music industry has long sold black culture to white Americans. Now **McDonald's** is doing much the same. It's taking cues from African Americans, Hispanics, and Asians to develop menus and advertising in the hopes of encouraging middle-class Caucasians to buy smoothies and snack wraps as avidly as they consume hip-hop and rock 'n' roll.

"The ethnic consumer tends to set trends," says Neil Golden, McDonald's U.S. chief marketing officer. "So they help set the tone for how we enter the marketplace." Golden says preferences gleaned from minority consumers shape McDonald's menu and ad choices, which are then marketed to all customers.

The fast-food giant's strategy is a departure from the way companies typically market to American households. Usually, a company works with an agency to develop advertising aimed at the general market, then turns to boutique multicultural agencies to create versions tailored to blacks, Hispanics, or Asians. McDonald's still creates ads specially tailored to minority groups, as it has for over 30 years, but minorities exert an increasingly influential role in its mainstream advertising as well. The company thinks they provide early exposure to new trends.

"Most companies think they can box in Latinos, box in African-Americans, and then run the general market ad," says Steve Stoute, chief executive of Translation, which advises brands, including McDonald's, on how to reach young adults. "McDonald's will take an ad that could be primarily geared toward African-Americans and put a general market advertising dollar behind it."

The move reflects a demographic shift under way in the U.S. as a whole. As whites head toward minority status by mid-century, according to Census Bureau projections, Hispanics, Asians, and black populations are growing faster. California and Texas, the two largest states, are already "majority minority," meaning white non-Hispanics make up less than 50 percent of the population.

Its low prices have helped fuel McDonald's recent strong performance, even as the rest of the restaurant industry struggles to recover from the recession. But Golden says his minority-shapes-majority marketing strategy is paying off, too. U.S. sales rose 1.5 percent in the first three months of the year, thanks to the success of new menu items and, he says, an improved perception of the brand among all ethnic groups.

Golden says he first discovered how dramatically minority tastes can influence mainstream preferences when he

ILLUSTRATION BY STEPHEN KRONINGER





oversaw McDonald's marketing in the U.S. West in the 1990s. His team had developed products aimed at Hispanics called the "Fiesta Menu," which included guacamole and spicy beef *tortas*. After the launch, the items sold well enough in Hispanic neighborhoods—but sales rose more than expected in Orange County and specifically Laguna Beach, an area that was more than 90 percent white. "The intended consumer said, 'We sure appreciate what you're trying to do, nice try.'" Golden recalls. "But [the Fiesta menu] overperformed in the general market."

Golden went on to create a strategy for the U.S. business that he calls "Leading with Ethnic Insights." Working with Jonah Kaufman, a McDonald's franchisee who has 13 restaurants on Long Island, N.Y., Golden doubled the spots designated for minority franchisees on the national advertising committee, which advises on and approves ads. McDonald's also uses a disproportionate number of blacks, Hispanics, and Asians in focus groups. Later, marketers are asked to imagine how they would sell a product if the U.S. population were only African American, Hispanic, or Asian. They look for differences to McDonald's general market plan.

That sensitivity has already influenced new products. The fruit combinations in McDonald's latest smoothies, for instance, reflect taste preferences in minority communities. And when the company started heavily advertising coffee drinks last year, the ads emphasized the indulgent aspects of sweeter drinks like mochas, a message that resonated with blacks, says Golden.



In fact, many of McDonald's ads now feature only African Americans. Of the 10 most-aired TV ads from the past 12 months, compiled by ad tracker Nielsen IAG, five had all-black casts. While the ads usually push specific products or deals, many use situations aimed directly at ethnic consumers. In a recent commercial called "Big Day," a young boy at a wedding looks bored while watching the bride and groom kiss and jump over a broom—an African American matrimonial tradition. His eyes light up, however, when he gets to his seat and finds a Happy Meal. —*Burt Helm*

The bottom line *McDonald's is increasingly taking its marketing cues from minority groups, which it considers to be trendsetters for white America.*

1.21

MILLION

The number of vehicles sold by General Motors and its joint ventures in China during the first half of 2010. It's the first time GM's sales in China exceeded those in the U.S., which were 1.08 million.

Energy

What's Tony Hayward Doing in Abu Dhabi?

▶ Congress is sure to review any sale of shares to a strategic investor

▶ "I would be very careful if I were somebody at BP"

Tony Hayward played it coy when asked what brought him to the wealthy desert emirate of Abu Dhabi, where the **BP** chief executive officer met in early July with Crown Prince Mohamed bin Zayed Al Nahyan. If he went for the waters, like the nightclub owner played by Humphrey Bogart in *Casablanca*, he was misinformed. His unannounced visit stoked speculation that BP is seeking a new set of investors—patient ones—after a roughly 50 percent decline in its stock price caused by the Gulf of Mexico oil spill.

Arab investors are no strangers to BP. After the 1987 stock market crash, the **Kuwait Investment Authority** acquired a 20 percent stake in BP; it still owned 1.75 percent as of May 1, according to Bloomberg data. Libya, ruled by the volatile Muammar Qaddafi, is a less likely investor in BP, but it's interested, too. Libya **National Oil** Chairman Shokri Ghanem told Bloomberg Television on July 6 that he's advising the Libyan sovereign wealth fund to take a stake in BP, calling it a "good buy."

If a new set of investors do start to accumulate big stakes in BP, it will put U.S. authorities in a tricky position. BP, having bought both Amoco and Arco, has large operations in the U.S. and is the biggest oil producer in the Gulf of Mexico. Federal officials and members of Congress might not like to see lots of shares in the hands of potentially rival or unfriendly nations. Ultimately, though, it's not America's call—BP is headquartered in London, so it's up to the British government to decide if new share owners present security issues. No such review is under way.

What's more, driving away new investors from BP might not be in America's best interest, since the Administration is counting on BP to generate tens of billions of dollars in cash to clean up the Gulf and settle claims. Doing so will be easier for BP if it recruits investors who are willing to sit tight while the oil giant works through its troubles. On June 16, President Barack Obama said: "BP is a strong and viable company, and it is in all of our interests that it remain so."

By recruiting stable investors who are friendly to management, Hayward can lessen the threat of a hostile takeover offer for the weakened company from the likes of **ExxonMobil** or France's **Total**. For now at least, raising cash isn't the objective. BP spokeswoman Sheila Williams, while declining to comment on Hayward's sojourn to Abu Dhabi, said on July 6 that the company won't issue stock.

BP can get money other ways. The company has said it intends to raise $10 billion over the next 12 months through asset sales. It's considering selling peripheral oil fields in Colombia, Venezuela, and Vietnam and may also dispose of its 60 percent holding in **Pan American Energy**, Argentina's second-largest oil producer, according to a person with knowledge of the matter. It has also suspended its dividend.

If sovereign wealth funds do acquire stakes in BP, they are likely to make



Tony Hayward testifying before the House on June 17

CLOCKWISE FROM LEFT: LARRY DOWNING/REUTERS; NELSON CHING/BLOOMBERG; VW AG/BLOOMBERG; LUO WEI BJ/IMAGINECHINA

them small and passive to avoid political conflicts, predicts Kuwait-based oil analyst Kamil al-Harami. That's based on what he calls the Kuwait Investment Office's "bitter experience" after 1987, when British authorities forced it to reduce its stake to below 10 percent so it wouldn't qualify for a board seat.

The question is whether investors' efforts to stay under the radar will work with the U.S. Congress, which is at least as sensitive as the British about foreign investments in its energy sector. In 2005 congressional opposition deep-sixed an attempt by **Cnooc**, an oil company controlled by the Chinese government, to buy California-based **Unocal** for $18.5 billion.

The public's fury over the Gulf spill has probably made Congress even pricklier about foreign energy investments, says Vin Weber, a former Republican congressman who advises companies on how to deal with Congress and federal agencies. Says Weber: "I would be very careful if I were somebody at BP before I got too far down the road on an investment that would attract too much political attention."

Since BP isn't an American company, the makeup of its investors falls outside the jurisdiction of Congress and the interagency Committee on Foreign Investment in the U.S., notes Edwin M. Truman, an expert on sovereign wealth funds at the Peterson Institute for International Economics. But Congress could still make trouble for BP. "If Congress wants to assert authority over something, they will find a way," says Weber, who is managing partner of Clark & Weinstock in Washington. Foreign investors don't like to be hauled before congressional committees, so they tend to back off when they sense opposition developing, says James K. Jackson, a specialist in international trade and finance at the Congressional Research Service.

It's a hypothetical concern for now. If the U.S. gets too picky about BP's shareholder base, though, it could disrupt a company it's counting on to pay claimants ranging from shrimpers to hotel owners. B *—Peter Coy, with Ayesha Daya, Camilla Hall, Brian Swint, Gonzalo Vina, Juan Pablo Spinetto, and Stanley Reed*

***The bottom line** BP needs money to cover costs of the oil spill and might get some by selling a stake. But it has to tread gently on American sensitivities.*

In brief

by Cristina Lindblad



Back on the job: Rio Tinto's Yandi operation in Western Australia

Xstrata/Rio Tinto
Tax Détente Down Under
Mining companies are resuming investment in Australia following the government's decision to ratchet back a planned resource profits tax. Xstrata, the country's biggest exporter of power-station coal, restarted work on a $5 billion mine, while Rio Tinto revived a study for an expansion of its iron ore mines in the western part of the country. Prime Minister Julia Gillard on July 2 agreed to knock down the proposed tax from 40 percent to 30 percent after it became clear that the confrontation with mining companies threatened her party's prospects.

Hexagon
Swedish Engineering Makes a Big U.S. Buy
Hexagon, the Swedish company that is the top maker of precision measuring instruments, paid $2.3 billion for Intergraph. Alabama-based Intergraph makes software to visualize complex data and design factories, ships and oil rigs. The deal will more than double Hexagon's workforce, adding 4,000 employees.

Daiwa Securities
European Woes Create Opportunity
Japan's second-largest brokerage agreed to buy KBC's convertible bond and Asia equity derivatives units for about $1 billion. The Belgian bank has been unloading assets in order to meet a 2013 deadline for repaying a government bailout. The acquisition will help Daiwa boost annual revenue by about $171 million.



Carrefour
Dialing Back In Southeast Asia
France's Carrefour, the world's second-biggest retailer after Wal-Mart Stores, is looking to sell its units in Singapore, Malaysia, and Thailand, according to people familiar with the matter. Prospective buyers could include the U.K.'s Tesco, Japan's Aeon, and Hong Kong's Dairy Farm International. The assets could fetch as much as $1 billion in total. Meanwhile, Carrefour is scaling up in China, where it plans to open 22 hypermarkets and 140 discount stores this year alone.

Samsung
Rising Chip Prices Deliver Bumper Profits
Asia's biggest maker of semiconductors, flat screens, and mobile phones posted record profits last quarter, spurred by a recovery in demand for computer memory chips that drove up prices. Samsung's second-quarter sales jumped 14 percent and its operating income soared 87 percent, to around $4.1 billion. The strong results should help Samsung fund a $14.7 billion capital spending plan to widen its lead over competitors.

Wal-Mart
Testing an Online Loan Program
The world's No. 1 retailer will launch an experimental online loan program. Wal-Mart Stores' Sam's Club unit is teaming with Superior Financial, an Arkansas-based nonbank lender, to offer qualifying members 10-year loans of between $5,000 to $25,000 at an annual interest rate of 7.5 percent. In a statement, the company said the program is aimed at entrepreneurs and businesses owned by minorities, women, and veterans. Wal-Mart's earlier efforts to open a full-fledged bank in the U.S. were stymied by Congress.

Apple
Mining iTunes to Target Mobile Ads
Apple is studying the buying habits of many of the 150 million users of its iTunes store to finesse its mobile ad strategy. The company began placing ads in iPhone applications for the first time this month. Early clients include Nissan Motor, Unilever, J.C. Penney, Best Buy, and AT&T. U.S. mobile advertising spending is expected to grow 43% this year, to $593 million, and reach $1.56 billion by 2013, according to research firm eMarketer.

Total
Burrowing into Canadian Oil Sands
Total, Europe's No. 2 oil producer, spent $1.4 billion to acquire UTS Energy, a Calgary (Alta.)-based company that owns a 20 percent stake in a large bitumen project called Fort Hills. Oil majors including Royal Dutch Shell and ExxonMobil have been investing heavily in shale gas, oil sands, and other crude alternatives, a trend that may pick up in the wake of BP's woes in the Gulf of Mexico.

Volkswagen
A New Hand at the Wheel at Porsche
Volkswagen appointed Matthias Mueller (below) as chief executive officer of Porsche, effective Oct. 1. Mueller, currently the head of product planning at VW, will replace Michael Macht, who will become VW's production chief. Volkswagen gained effective control of Porsche in December and has been working to knit the two carmakers closer together. Mueller, 57, will be tasked with expanding Porsche's four-model lineup with an eye to doubling annual sales, to 150,000 vehicles.



Charlie Rose talks to

Anne Lauvergeon



The French call the CEO of the largely state-owned nuclear power company Areva "Atomic Annie." Lauvergeon also sits on the board of Total.

Has nuclear energy's moment arrived?
We are experiencing a nuclear renaissance not only in Western countries but in the rest of the world–China, India. Also, we have newcomers now in the game. That's very exciting. And it's a very good business for us.

What are the arguments for nuclear power?
First, it's a good way to produce a lot of electricity cheaply. Of course, you have to invest heavily at the beginning, but afterwards you have 60 years of electricity at a very predictable cost. You don't depend on other countries, and you have no CO_2 emissions. But nuclear energy is not for everybody. You cannot build new nuclear plants in a country that is not stable, that is not managed with rationality.

Two issues always come up. One is the possibility of another Chernobyl, some kind of accident. People look at what happened in the Gulf and they say, "Aha!" Big accidents can happen. Plus, what do you do with the waste? And what about that plutonium that comes from the waste?
The new generation [of nuclear plants] answers your questions. You have no waste. And, of course, we have taken lessons from Chernobyl. It was a Soviet accident with a Soviet design. Our designs are much better. We have taken the lessons of Three Mile Island, and we have taken the lessons of September 11. Safety, security first.

What are you doing with the nuclear waste?
First, you put a very small quantity of uranium into the plant. So at the end you have a very small quantity of nuclear waste. What to do with it? We are recycling 96 percent of this waste. You don't recycle in the U.S.

Why is that?
It was a choice made by President Carter in the past saying that the technology for reprocessing/recycling could be used for a military purpose. Fortunately, President Obama decided recently to establish a commission to review this policy.

Between now and 2050, what percentage of U.S. demand could nuclear serve?
You have 20 percent of your electricity produced by nuclear. You have the oldest nuclear plants in the world because you started in the '50s or '60s. Some of them have no lifetime extension [after] ... 2025, 2030. So what to do? It's in your hands, but it's clear that India, China, a lot of emerging countries are going to nuclear. Why? Because it is cheap. We are in a global competition worldwide. If we are not competitive in terms of energy, we are dead.

Why isn't the momentum to nuclear faster?
To build a new nuclear plant in the U.S., you have to be licensed, and it takes five years.

Is that licensing a bad or good idea?
It's a very good idea. You have to protect the public, so it takes time.

Would you sell a reactor to Iran?
Never. They don't accept the IAEA [International Atomic Energy Agency] rules. Pakistan? No. North Korea? No.

What's the threat, as you see it?
Iran, Pakistan, North Korea. They don't have one kilowatt hour produced by a nuclear plant. They say they need enrichment capacities and some specific technologies for civilian use, but ... we have an international system to deliver enriched uranium. Take a country like Switzerland or Belgium. They have had nuclear plants for like 40 years, and they don't have enrichment capacities.

Did you turn down the job of French Finance Minister?
No comment.

Obviously you did. Is it simply because you want to run your company well or because you're full of some missionary zeal and have taken it upon yourself to sell nuclear energy to the world?
No, no, no. God didn't give me a mission to save the world or sell nuclear. No. I am a normal person. But the energy business is a fantastic place to be.

The French get almost 80 percent of their energy from nuclear. Why are they more accepting of nuclear power than Americans? Because they like to be contrarian and also like technology?
I think we have another reason that's my own interpretation. In France, we have been traumatized by the end of colonialism and the civil war in Algeria. And to depend on Middle East countries for oil, that is impossible for France. Ⓑ



Watch Charlie Rose on Bloomberg TV weeknights at 8 p.m. and 10 p.m.

FROM TOP: LUDOVIC/REA/REDUX; BRAD TRENT



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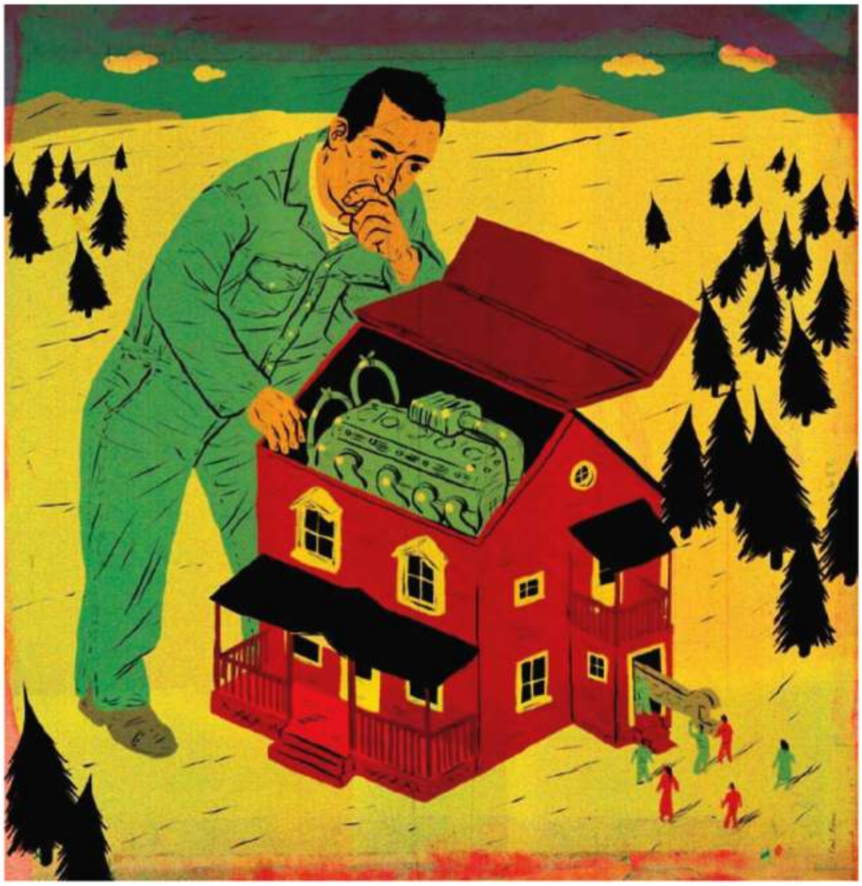


ILLUSTRATION BY PAUL BLOW

Time to Rethink Fannie and Freddie

▶ The debate has begun on how to reform the housing giants

▶ Investors need "confidence that there is government backing"

As the White House pushed for a Wall Street overhaul this year, Republicans hammered Democrats for ignoring two of the biggest problems in American finance: Fannie Mae and Freddie Mac. The government-backed mortgage giants have cost taxpayers $145 billion and counting. Now, with work on the 2,300-page financial-regulation bill all but complete, the Obama Administration will soon turn to revamping the pair of institutions that own more than half the nation's $11 trillion in residential mortgages. The political struggle could be long and bitter.

Some Republicans in Congress contend that killing Fannie and Freddie is the only wise course. President Obama is expected to advocate something closer to the rough consensus for moderate reform emerging among Washington lobbyists representing banking, real estate, and consumer groups.

Fannie and Freddie operated as shareholder-owned corporations that financed home loans with the tacit support of the federal government. When the housing market collapsed, so did Fannie and Freddie. They were formally seized by the Treasury Dept. in September 2008.

Setting aside their occasional animosity, industry and consumer advocates say they share certain core goals on mortgage finance. Banks and builders by and large agree with representatives of home buyers that it's in all of their interests to have the government continue to promote residential lending by encouraging what Fannie and Freddie have done for decades: buy mortgages and bundle them into securities for sale to investors. When it functions properly, the mortgage-backed securities market generates fresh cash that can be channeled back into additional affordable loans. The challenge is figuring out how to do this without the lax practices and open-ended federal commitment that left taxpayers on the hook for catastrophic losses in 2008.

"There will be a government role in the market whether we like it or not," predicts Phillip Swagel, Assistant Secretary for economic policy at the Treasury under President George W. Bush.

At the heart of the emerging consensus across industry and consumer lines is the preservation of the 30-year, fixed-rate mortgage. "People regard it as a right as Americans to get a 30-year, fixed-rate loan," says Susan Woodward, former chief economist at the Housing and Urban Development Dept. and a founder of **Sand Hill Econometrics**, a research firm in Palo Alto, Calif.

To inject more caution into the system, Washington lobbyists working on housing-finance reform say mortgage lenders who bundle loans into bonds should contribute to an insurance fund that would be available in case of calamity. The fund could be modeled on the Federal Deposit Insurance Corp., which protects consumers from bank failures with a fund financed by lending institutions.

Another step that would limit taxpayer exposure could be mandating that only the safest loans—such as those that include a down payment by the borrower and carry private mortgage insurance—would be bundled into government-guaranteed bonds marketed to investors. It will be important to strike a balance that doesn't stifle innovation, argues Edward J. DeMarco, acting director of

The iPhone's adorable nemesis page 40 ▶



the Federal Housing Finance Agency, which oversees Fannie and Freddie. "We've got over 50 million homeowners with mortgages, and they represent all kinds of different financial conditions," DeMarco adds. "We need to be a little bit careful about shoehorning the entire country into one particular mortgage type."

The government's role in the new system ought to be a lot clearer than it was in the past, according to industry and consumer advocates. Federal officials traditionally insisted they had no legal obligation to stand behind Fannie and Freddie, even though investors assumed they would. When the market imploded, Treasury stepped in, despite past disclaimers.

Executives with the Mortgage Bankers Assn. and the National Association of Realtors say mortgage-backed securities that meet government standards should receive an explicit guarantee. Without it, they say, investors will balk at buying mortgage bonds, especially in times of economic distress. "To have long-term investment in a 30-year fixed mortgage, you have to have some confidence that there is government backing," says Paul Leonard, a lobbyist for the Financial Services Roundtable, whose members include **JPMorgan Chase**, **Wells Fargo**, **Bank of America**, and **BlackRock**.

These industry-inspired proposals are less radical than some ideas emanating from Congress. During debate over the financial-services overhaul, Republicans offered dozens of amendments to abolish Fannie and Freddie, only to be rebuffed by Democrats. Led by Senator John McCain of Arizona and Representative Jeb Hensarling of Texas, Republicans say Fannie's and Freddie's competing missions—to serve shareholders and promote homeownership among low-income households—drove the financial institutions to ruin. The Republicans want the government to abandon any role in housing finance.

The Obama Administration and Democrats, including House Financial Services Chairman Barney Frank of Massachusetts, insist that the government continue to promote homeownership. "We should not compromise any of our core policy goals in the decisions we make in structuring our housing finance system," Housing and Urban Development Secretary Shaun Donovan told Frank's committee in April.

One thing is for sure: The White House will not lack for advice on the future of Fannie, Freddie, and the housing market. "Everybody's telling them, 'Don't do anything stupid,'" says Barry Zigas, director of housing policy for the Consumer Federation of America. "It's easy to forget that this system worked awfully well for 75 years." That is, until it didn't.

—*Lorraine Woellert and Rich Miller*

The bottom line *Industry and consumer advocates agree on moderate reform of Fannie Mae and Freddie Mac.*

Financial Reform Bill

Massachusetts' Political Odd Couple

▶ Scott Brown and Barney Frank: Differing styles, common mission

▶ They're opening loopholes for Fidelity and MassMutual

Party, age, political experience, and personal style separate Republican Senator Scott Brown and Democratic Representative Barney Frank. Home state loyalty has brought them together. Consider their success in opening loopholes in the financial regulatory reform legislation for Massachusetts brand names such as **Fidelity Investments**, **MassMutual**, and **State Street**.

Brown, 50, rocketed to prominence just this year as the Tea Party favorite who won a special election and took the seat of the late liberal lion Edward Kennedy. Before a modest career in the Massachusetts state legislature, he appeared as a centerfold in *Cosmopolitan* magazine in 1982. Brown became a key player in Washington merely by showing up as "No. 41," the senator who broke up the Democrats' 60-member filibuster-proof supermajority. He made it possible for Republicans to block any legislation, and he has taken advantage of that dealmaker role.

Frank, 70, belongs to the liberal Washington establishment Brown ran against. Elected in 1980, he chairs the powerful House Financial Services Committee and was a primary architect of the Wall Street overhaul bill now awaiting final passage in the Senate. Typically rumpled, with shirt untucked and hair uncombed, Frank isn't obvious centerfold material.

As an influential committee chairman at the center of the reform debate, Frank was a central target for financial-services executives and lobbyists. In recent months he has met with Fidelity President Abigail P. Johnson and executives from State Street and insurance companies to discuss the legislation, he says. Exemptions for financial-services companies in his state don't water down the bill, Frank argues.

"Massachusetts has a number of large financial institutions that are big and solvent," says Frank. "We want to make sure that the regulations aimed at excessive leverage and volatility don't unduly restrict them."

Brown's yes vote on the overall bill—pledged, revoked, and then ultimately delivered—allowed the regulatory measure to pass the Senate in May. Now, after arduous interhouse negotiations to reach a compromise, the legislation has



Barney Frank
House Financial Services chairman

Scott Brown
U.S. Senator

passed the House again and requires a final Senate vote. That gives Brown another opportunity to make a mark. He is withholding his support for the moment, saying he will study the adjusted bill. Whether or not his vote turns out to be decisive, the legislation is expected to contain Massachusetts carve-outs that he and Frank favor.

Working with Frank, Brown sought assurances that businesses holding an unusual type of bank charter, known as a limited purpose trust, wouldn't automatically fall under the jurisdiction of the Federal Reserve's expanded regulation of "systemically important" financial companies. Boston-based Fidelity, which manages $1.5 trillion as the world's largest mutual fund company, holds such a charter. The insurance company MassMutual has a banking operation chartered as a limited purpose trust.

Brown also asked Frank to ensure that Boston's State Street Bank, which manages money mainly for institutions, wouldn't be harmed by the overhaul bill's restriction on proprietary trading, a provision known as the Volcker rule, after former Fed Chairman Paul Volcker. The bank feared that the new rules would make it harder to manage its money market funds.

The final legislation allows State Street and other banks to invest 3 percent of their own capital in hedge funds or private equity funds. It exempts all insurance companies and mutual funds from the Volcker rule. Frank also excluded mutual funds and insurers from a $19 billion assessment on the financial industry, before that provision was stripped altogether from the bill because of Republican opposition.

Brown declined to comment for this article. In the past he has said he is trying to shield Massachusetts firms that played no role in the financial crisis. Members of his staff point out that the changes the rookie senator and the veteran House committee chairman made in the overhaul legislation aren't purely parochial. The alterations will ease rules for large financial institutions nationwide, the Brown aides note, not just in Massachusetts.

—*Robert Schmidt and Phil Mattingly*

The bottom line *A Senate neophyte and a House leader collaborate to shield Massachusetts companies from financial regulation.*

FROM LEFT: FRANK: TIM SLOAN/AFP/GETTY IMAGES; BROWN: MICHAEL REYNOLDS/EPA/CORBIS; ILLUSTRATION BY TOPOS GRAPHICS



California

A Health Warning for a Wireless Age

▶ San Francisco mandates emission disclosure for mobile handsets

▶ "We are not saying we know cell phones cause cancer"

Cigarette packs in the U.S. have carried government health warnings since 1965. Last month, San Francisco's city government brought such warnings into the Information Age, voting 10-1 to require that stores post the level of radio waves emitted by each mobile phone they sell. In passing the law, called the Cell Phone Right-to-Know Ordinance, San Francisco entered a battlefield of dueling scientists and conflicting findings.

A cell phone's main source of radio frequency, or RF, energy is produced through the antenna. The closer the antenna is to the head, the higher the exposure, according to the National Cancer Institute. But there's no scientific consensus on whether exposure from frequent cell-phone use can lead to cancer, as many fear. The latest study on the issue, published last month by the World Health Organization, couldn't find a conclusive link. Researchers did, however, report a "suggestion," backed up by incomplete data, that the heaviest phone use may be tied to gliomas, the most common type of brain tumor and the one that claimed the life of Senator Edward Kennedy last year. A more worrying 2005 study from Sweden claimed to find an apparent link between brain cancers and mobile-phone use.

The researchers behind both studies caution that it can take decades of exposure to a cancer-causing agent for a tumor to appear. Because heavy cell-phone use is a relatively new phenomenon, they need more time and data to study the issue. Additionally, Mary McBride, a scientist at the British Columbia Cancer Agency and a co-author of the WHO report, says that most studies, including hers, have excluded children, whose brains absorb more energy than adults and whose phone use has grown exponentially.

The Federal Communications Commission currently regulates cell-phone emissions based on the amount of RF energy absorbed by the body during phone use, a metric called the "specific absorption rate." The maximum SAR allowed under a 20-year-old standard is 1.6 watts per kilogram of body weight, and any emission level below that is considered safe, at least by the FCC. The San Francisco ordinance will require sellers to post the SAR regardless of the rate. That may confuse consumers, says John Walls, a Washington (D.C.) spokesman for trade group CTIA-The Wireless Assn., since they're likely to infer that a higher SAR rating means a more dangerous

phone. "As long as those devices meet or fall below the FCC standard, they are all considered safe—period," he says.

Many consumers and activists argue that transparency can't hurt. "It totally makes sense to give consumers more information," says Renée Sharp, an Oakland (Calif.) scientist with the Environmental Working Group, which supports the measure. "We are not saying we know cell phones cause cancer."

Ellie Marks, of nearby Lafayette, Calif., was also pleased by San Francisco's decision. Her husband, Alan, has a brain tumor she believes was caused by his frequent use of mobile phones. An early adopter, he got his first phone in 1987, she says, and for two decades he used it more than 500 hours a year, mostly glued to his right ear. In May 2008, he was diagnosed with a glioma in his right frontal lobe.

Since then Marks has advocated for educating customers about what she calls the avoidable risks of mobile phones, testifying before Congress as well as the California and Maine state legislatures. In each case, measures to provide information on RF emissions were defeated. Now that she's tasted victory in San Francisco, though, she says she'll keep pushing. Next up: Burlingame, Calif., where Councilman Michael Brownrigg plans to introduce a bill modeled on the one passed by his neighbors to the north. Marks may soon find herself back before Congress, too. On June 30, Dennis Kucinich, the Democratic congressman from Cleveland and two-time Presidential candidate, announced he'll introduce a federal right-to-know bill similar to San Francisco's.

Industry representatives, meanwhile, are expressing their displeasure with their wallets. After October, the CTIA says, its annual trade show will no longer grace the City by the Bay. "We thought the Board of Supervisors' decision sent a very clear message," Walls says. "We weren't wanted in San Francisco." —*Rob Waters*

The bottom line *Despite a lack of definitive evidence tying cell phones to cancer, San Francisco wants consumers to know the emission levels of handsets.*

Quoted

"Setting immigration policy and enforcing immigration laws is a national responsibility. Seeking to address the issue through a patchwork of state laws will only create more problems than it solves."

—Attorney General Eric Holder on July 6, the day the Justice Dept. filed suit to block Arizona's contentious immigration law



Health Reform

The Obamacare Maze, Now Online



▶ **HealthCare.gov tries to make 907 pages of legislation user-friendly**

▶ **A site "to help consumers take health care into their own hands"**

Health-care reform may have been signed into law four months ago, but in this day and age you don't really exist until you've got your own website.

Obamacare now has a digital home in HealthCare.gov, an Internet destination designed by the U.S. Health & Human Services Dept. to help consumers navigate the health overhaul signed into law by President Barack Obama in March. In book form, the legislation fills up a hefty 907 pages.

The site, launched on July 1, offers a detailed breakdown of the law, as might be expected. It also has an insurance plan finder, a Twitter feed to distribute information on policy changes, and videos of senior citizens, pregnant women, and others explaining the law's benefits, at least from the Obama Administration's point of view.

In the past, Republicans in Congress have criticized the Administration for using official government channels to promote what they see as propaganda. Michigan Representative Dave Camp, the House Ways & Means Committee's top Republican, in May called an Administration mailing on Medicare changes "blatantly political." So far, though, the new website has gotten a pass. Todd Park, chief technology officer at HHS, says the site's only purpose is "to help consumers take health care into their own hands." It's the first resource, he says, that brings together insurance options for individuals and small businesses and integrates public and private programs.

The site aims not just to blast information at users but to help them make sense of a topic that only seems to grow more complicated. "I think this is going to be an extraordinarily helpful tool," says Ron Pollack, executive director of Washington-based consumer group Families USA, which supported passage of the health overhaul. In the "What's Changing—and When" section, users can click through a timeline to find out when different pieces of the legislation take effect. A section on "Strengthening Medicare" explains changes to that program, such as a $350 million antifraud effort, in a simple-to-understand manner. And, says Pollack, "it'll be the first time in any single place you can find all of the different kinds of insurance coverage that are available to you."

At least that's the aim; some parts still aren't complete. The function to help people find insurance coverage, for instance, lists the companies that have policies to offer but says prices won't be available until Oct. 1. "We started building the site 90 days ago," Park says, calling the current version "just the beginning."

The new website could be a dry run for 2014, when the government will begin supporting insurance "exchanges" that actually sell health coverage, suggests Alec Vachon, a Washington-based health-care consultant and a former Republican Senate aide. "This is health exchange zero-point-five." —*Drew Armstrong*

The bottom line *The new HealthCare.gov site aims to help citizens navigate health-care reform, but it's still missing some key information.*

CLOCKWISE FROM LEFT: YURI GRIPAS/REUTERS; ILLUSTRATION BY TIMOTHY GOODMAN; PETE SOUZA/THE WHITE HOUSE; BUENA VISTA PICTURES/EVERETT COLLECTION

Lobbying

Why Hollywood Loves The White House Again

▶ The Feds are cracking down on websites offering pirated films

▶ "We feel like we've got the wind at our back," Warner's chairman says



Obama's Administration has acted on the studios' agenda

On June 30 the Homeland Security Dept.'s U.S. Immigration & Customs Enforcement arm used a vacant sound stage at Walt Disney Studios in Burbank, Calif., to announce the seizure of nine websites with names like NinjaVideo.net and thepirate-city.org that allegedly traffic in illegal movie downloads. The operation, which involved 100 special agents, follows a separate move by the Federal Communications Commission in May that opened the way for studios to offer cable viewers films at premium prices while the flicks are still playing in theaters.

Hollywood may also get a big win in the pending financial reform legislation expected to pass later this summer that will reshape the regulation of derivatives. Tucked into the current version of the bill is a ban of futures markets in box-office ticket sales such as one planned by securities brokerage firm **Cantor Fitzgerald**. Hollywood fears such a market would harm the financial fortunes of some films.

"We feel like we've got the wind at our back," says **Warner Bros.** Chairman Barry Meyer, one of Hollywood's advocates of tougher actions on piracy. "We're getting a good hearing on the issues that matter to us."



All this is a change from the last Bush Administration, which focused on concerns over indecent television programming and resisted efforts by cable TV operators to raise prices. Such issues haven't been a priority for FCC Chairman Julius Genachowski, a Harvard Law School classmate of Obama's, who until 2005 served as general counsel for **IAC**, an Internet company headed by former Hollywood executive Barry Diller.

Hollywood's biggest win so far has been on movie piracy. Studio executives lobbied the Administration during a meeting in December with Vice-President Joseph Biden to step up its efforts, says A. Robert Pisano, acting chief executive of the Motion Picture Association of America (MPAA). The lobbying group, which had pressed Washington for the last decade to crack down on piracy, says it costs the economy $20 billion a year. Federal officials say they will continue closing down offending websites.

Major movie studios and the industry's lobbying group have been generous Democratic Party campaign contributors. The motion picture industry gave $14.1 million to federal candidates for the 2008 election, with 90 percent of that going to Democrats, according to the Center for Responsive Politics. "A lot of Hollywood types and companies came out pretty strongly for Obama" during the Democratic primaries in 2008, says Andrew D. Lipman, a Washington-based media lawyer with the firm Bingham McCutchen.

Hollywood still has big policy priorities on its agenda. Major movie studios were disappointed by a federal court decision on June 24 that sided with **Google** in a lawsuit filed by **Viacom** alleging that Google's video-sharing website, YouTube, didn't act quickly enough to take down copyright-infringing content. Viacom wants new federal rules put in place that would require online service providers to tell offending customers to "stop or your bandwidth will be shut down or throttled," says Scott Martin, executive vice-president of intellectual property at Paramount Pictures, a Viacom unit. Service providers such as **AT&T** say they currently need a court order to take that action.

Senate Judiciary Committee Chairman Patrick Leahy (D-Vt.) says he's trying to build support for even tougher legislation and enforcement. And why not? Hollywood has been good to Leahy, who had a small role in the 2008 Batman movie, *The Dark Knight*. Ⓑ —*Ronald Grover and Todd Shields*

The bottom line *In contrast to the last Bush White House, the Obama Administration has been responsive to Hollywood's policy agenda.*

James Warren

The Spectacular Ickiness of Blago on Trial



Amid cheers, tears, and crying infants, American idealism was on display on July 6 in a Chicago federal courtroom where 91 immigrants took the oath of citizenship. "This is great. It's the land of opportunity," said Marius Ilie, a 27-year-old AT&T data analyst from Romania. It's too bad Marius couldn't stop by the adjacent courtroom for a glimpse of *U.S. v. Blagojevich* to see just how much opportunity.

Rod Blagojevich, the foul-mouthed, puffy-haired former Illinois governor, stands accused of corruption, including an attempt to sell President Barack Obama's former Senate seat. He's an undeniably entertaining spectacle: What other defendant would pause on his way into court to ask a reporter, "How's the suit?"

The prosecution has tried to show that, like Tony Soprano, the governor and three top aides referred to themselves in code ("1," "2," "3," and "4") as they mulled diverting state revenues into personal accounts. Blagojevich obsessed over fundraisers and berated those who didn't meet their goals—revealing initial claims to the FBI of a "firewall" between government and politics to be a lie. He pumped iron while suggesting he might pick Oprah Winfrey to replace Obama in the Senate, knowing she would demur but that it would draw attention to himself. ("It's going to be huge.")

Blagojevich is such a needy defendant that he hogs all the scandal for himself. It's a shame, since there's plenty of notoriety to go around. It's all there on FBI wiretaps and in witness testimony: finder's fees for procuring state business, money-driven access to the Governor—some of which results in the creation of dubious public policy. Shady characters are everywhere at this trial—little-known middlemen such as Robert Kjellander, a former Republican National Committee treasurer who thrives in the shadow world between government and commerce. In 2003, Blagojevich selected Bear Stearns as lead underwriter of a $10 billion bond deal meant to prop up the state's ailing pension funds, part of which prosecutors say was a kickback scheme by the governor and top aides aimed at securing their financial futures. Bear Stearns made $8 million in fees and gave $809,000 to Kjellander, its Illinois lobbyist. What he actually did to earn that check is unclear; neither prosecutors nor defense lawyers are able to explain it.

What he did after getting paid is clearer. Kjellander loaned $600,000 of his fee to the owner of a struggling pizza parlor who happened to be a friend of Antoin "Tony" Rezko—who in turn was a friend of Blagojevich. (Rezko's been in jail since 2008 awaiting sentencing for fraud and money laundering.) Rezko then had the pizza man, who was granted immunity to testify, transfer funds to Rezko's creditors. Kjellander, in an FBI interview, says he didn't ask for collateral or financial statements and that he was repaid with interest. Neither Kjellander nor Bear Stearns is accused of any wrongdoing.

Blagojevich was the sun around which planet-sized middlemen orbited. Alonzo "Lon" Monk, the governor's law school roommate and chief of staff between 2003 and 2005, earned more than a million dollars as a lobbyist for the cable TV industry and construction firms, among others. A Chicago harness-track owner paid him $150,000 a year, only to face a shakedown for a Blagojevich campaign contribution. One hears Monk and Blagojevich scheming about not signing a bill, passed to help the racing industry, unless the owner forks over a fat donation. The owner, who had already contributed $320,000 to the governor over six years, testified that he wondered whom the lobbyist was really working for when cornered for a contribution in a stairwell. He decided not to write a check, and it's a good thing, too, since the shakedown was built on a lie: Blagojevich lacked the power to stop the racing bill from taking effect. The track owner got his $1.5 million a year in subsidies; Monk got two years for conspiracy to solicit a bribe.

It's tough to draw conclusions about how government works from the Blagojevich trial. The man really is a once-in-a-lifetime politician. Still, Blagojevich's calendar shows how easily donors and fund-raisers can dominate a governor's time. Tom Balanoff, Chicago leader of the Service Employees International Union, got meetings with the governor seemingly whenever he desired, often with scant warning. SEIU contributed nearly $2 million to his two campaigns, and Balanoff threatened to pull support when Blagojevich once "blew me off." It wasn't just Blagojevich who thought everything in government was for sale.

Blagojevich is a scoundrel, though there are court-room moments that reveal a misguided patriotism. The first-generation son of Serbian immigrants is caught on tape hoping that if he dispenses Obama's old Senate seat shrewdly he might get "a ride on Air Force One" or "spend the night in the Lincoln bedroom." At trial's end, let's hope Blagojevich will restore our faith in at least one American institution: the criminal justice system. **B**

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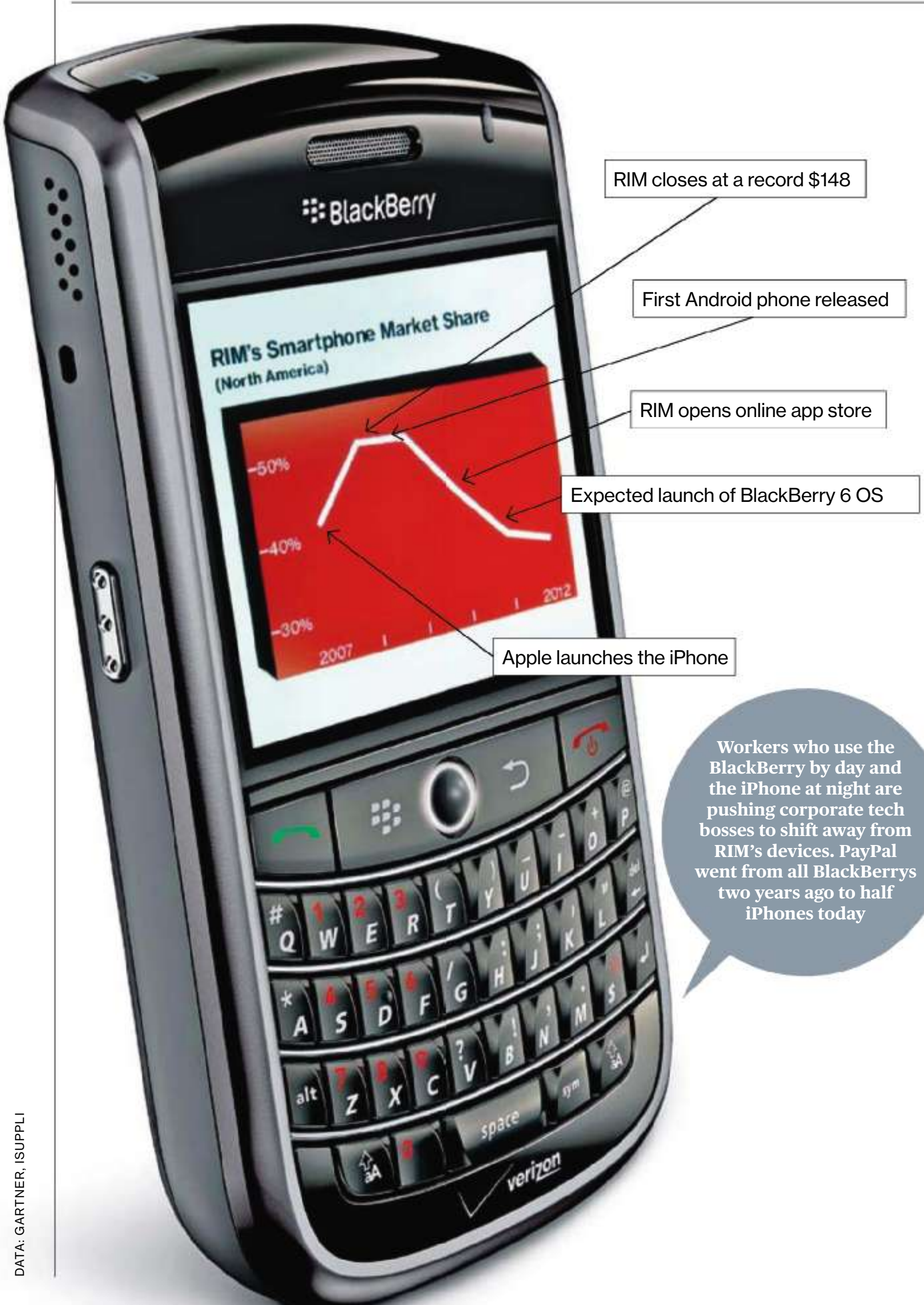
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Technology

Giving the BlackBerry More Juice

▶ **RIM is still king in smartphones, but its reign depends on boosting the wow factor**

▶ **"Developing for RIM is just a waste of time until they can show there's an appetite for apps"**



Workers who use the BlackBerry by day and the iPhone at night are pushing corporate tech bosses to shift away from RIM's devices. PayPal went from all BlackBerrys two years ago to half iPhones today

DATA: GARTNER, ISUPPLI

Research In Motion presented Queen Elizabeth II with a white BlackBerry during a royal visit to the Canadian company's headquarters on July 5. Her Royal Highness is an apt representative of RIM's customer base: established, traditional, and likelier to use a phone to e-mail instructions to staff than download Lady Gaga videos. In short, not the audience co-Chief Executive Officer Jim Balsillie has to woo as RIM loses ground to **Apple**'s iPhone and handsets running **Google**'s Android operating system.

Despite an 11 percent drop in RIM's share price on June 25 after the company released first-quarter results, Balsillie is buoyant. With RIM poised to unleash a wave of new technology, he says, "the wind is about to gust on our back." Consumers, he promises, will be "blown away."

Investors are skeptical. The problem isn't just Android and Apple, with their hip handsets and vast libraries of applications that let users customize their phones. (The latest tally gives the iPhone about 225,000 apps and the Android some 65,000, vs. roughly 7,000 for BlackBerry.) They're worried about RIM's growing reliance on lower-revenue customers and the erosion of its once-airtight lock on the business market. Add to that the challenges of using a BlackBerry to surf the Web, watch video, or do much other than e-mail, text, or talk, and Balsillie has a lot to prove. BlackBerry's "weak browser capability is a huge issue," says Paul Taylor, chief investment officer at BMO Harris Private Banking in Toronto, which owns Apple and RIM stock. "The right thing to do is to invest every dollar they need to refresh the product and excite people again."

That's the reaction from a self-professed fan who expects new de-

Technology

vices will close the gap with rivals. Dean Crutchfield, senior partner at branding agency Method in New York, is less optimistic. RIM "is a bit of a one-trick pony," says Crutchfield, noting that the technology that made BlackBerry famous–wireless e-mail–is "no longer a game-changer." While the stock is trading at about nine times estimated earnings, vs. a multiple of 19 for Apple, "it's only cheap if they come up with a sexy device," says Buzzy Geduld, chief executive officer of New York hedge fund Cougar Trading, who recently sold his RIM stock.

RIM still reigns in smartphones, with 41 percent of the North American market, vs. 22 percent for Apple, according to researcher Gartner. Yet two-fifths of BlackBerry's 46 million users now reside outside of North America, up from a third two years ago, and those people tend to choose cheaper phones. "The only reason that RIM was able to boost subscribers [overseas] was through heavy subsidies," says Ashok Kumar, an analyst with investment bank Rodman & Renshaw. And while the number of BlackBerry subscribers worldwide has nearly tripled over the past two years, RIM's average revenue per user has fallen to $92 from $140 during the same period. Balsillie says overseas markets are lucrative, pointing to RIM's 41 percent jump in earnings per share last quarter. And he predicts that a shift away from all-you-can-eat data plans may hurt rivals that have less efficient technology.



Queen Elizabeth at RIM's Ontario home, where she got a new BlackBerry

Because of their strong security features and data capabilities, BlackBerrys have long been the handset of choice for companies. CTOs don't typically covet or even welcome fun features like games and video apps for their workers. But ever more buyers want their companies to support the iPhone and other similar devices. Mike Kourabas, an attorney at Weil, Gotshal & Manges in New York, uses an iPhone for personal calls and a BlackBerry at work. If the firm supported the iPhone, "it'd make my life easier," he says. "I wouldn't have to carry around two phones."

A Goldman Sachs survey of global IT managers, published on July 1, notes that more companies are willing to indulge the likes of Kourabas. It reports that RIM saw "significant erosion" in interest among tech managers. Only 59 percent of respondents plan to issue new BlackBerrys over the next 12 months, down from 84 percent in December. **PayPal**, for instance, has gone from all BlackBerrys two years ago to about half iPhones today. "For us it's about being open-minded," says technology chief Scott Guilfoyle. Balsillie acknowledges consumer pressure in the business, but insists it's overstated.

The big challenge for RIM is to woo consumers, who are fueling global demand for smartphones. To do that, the company needs to focus first on software developers like Wade Beavers, whose Minneapolis company **DoApp** has built 142 apps for iPhone, 130 for Android, and, he says, "no more than seven" for BlackBerry. Beavers complains that RIM is hard to work with because programs need to be tweaked for its different devices. Moreover, he says, interest in apps among BlackBerry users is so limited that it's hard to make money from the programs he does write for it. "Developing for RIM is just a waste of time until they can show there's an appetite for apps on their platform," Beavers says.

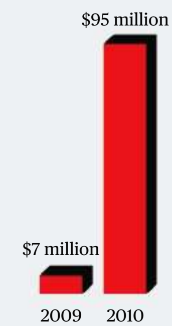
Balsillie and co-CEO Mike Lazaridis say the world won't have to wait long.

Travel

Fly the Wired Skies

In-flight Wi-Fi was slow to get off the ground. Now it's climbing fast. New numbers from market intelligence firm In-Stat project revenues will soar more than twelvefold this year even as competition drives down the prices paid by airborne Web surfers. Aircell, the market leader, expects to offer its Gogo service on about 1,000 planes by year's end. *—Olga Kharif and Barrett Sheridan*

Revenue
From in-flight broadband



Fleet
U.S. commercial aircraft with Wi-Fi by yearend



60%

(Out of 3,500 total planes)

Speed
Time needed to download a 5MB song (in seconds)*

2.5	Verizon FiOS broadband
22	AT&T 3G cellular
67	Row 44 in-flight wireless
80	Gogo in-flight wireless

* BASED ON AVERAGE DOWNLOAD SPEEDS
DATA: IN-STAT, PCMAG.COM, THE WALL STREET JOURNAL, ROW 44

France's money manager *extraordinaire* page 42 ▶



While RIM's sneak peek of the BlackBerry 6 technology in April didn't spark much enthusiasm, Balsillie says there's much more to come. He's planning a new look for BlackBerry's devices, enhanced software, and a better user experience. "The whole global computing game is very turbulent right now," he says. "There are always things you can do better, but we have a great strategy. Be careful not to look at just a short period of time and draw conclusions." *—Diane Brady and Arik Hesseldahl, with Cliff Edwards and Matthew Robinson*

The bottom line *BlackBerry's dominance in the business market may wane unless RIM can come up with sexy devices for consumers, too.*

Online Fraud

Washington's Web Cop Turns Up the Heat



▶ **The FTC is taking on Twitter, Facebook, and other online titans**

▶ **"I felt I was in over my head because I'm essentially a Luddite"**

If you think you get too much spam, try visiting the second floor of the Federal Trade Commission building in Washington. That's where a computer server holds the world's largest collection of spam e-mail–314 million messages, with 200,000 more arriving every day. The machine sits in the agency's Internet lab, a bunker crammed with electronic devices that help investigators hunt down spammers, spyware makers, and identity thieves.

Set up by Woodrow Wilson in 1914 as an antitrust watchdog, the FTC has steadily expanded its mandate to shield consumers from fraud and other deceptive business practices. Today it oversees everything from funeral homes to a national do-not-call registry for telemarketers. While antitrust and financial scams still top its agenda, the agency has taken fraud fighting digital over the past decade. It shut down spyware rings and outfits like 3FN, a Belize operation responsible for half of global spam until last year. "We're worried about fraudsters who can use the anonymity of technology ... to steal money or to cheat people in ways that are hard to detect," says David Vladeck (pictured), head of the FTC Bureau of Consumer Protection.

One year into his job as the nation's top scam-buster, Vladeck is targeting threats to users of social networks and mobile devices. He has convened roundtables with Silicon Valley executives, and in June he completed work on a mobile forensics lab where staff attorneys and investigators sniff out problematic apps and Web sites using handheld devices.

Privacy advocates say an Internet cop like the FTC is needed as new techologies present scammers with ever more opportunities. In June, an intruder hacked into **AT&T**'s website, exposing e-mail addresses of 114,000 iPad owners. In May, **Google** said it had inadvertently collected data from wireless Internet users while it took photos for its Street View mapping feature. "A lot of the threats that you have to defend consumers against are technical–on the Web, on mobile devices, on new kinds of gadgets that people aren't using yet," says Peter Eckersley of the nonprofit Electronic Frontier Foundation in Washington.

The past year has served as a tech crash course for the 59-year-old Vladeck, a former law professor at Georgetown University. "I felt I was in over my head because I'm essentially a Luddite," he says. He has no Facebook or Twitter account, and the job forced him to use a BlackBerry for the first time. For tech advice, he has had to lean on resident experts such as former privacy blogger Christopher Soghoian and the twentysomethings on the agency's staff. "Having people with technological savvy is really crucial," Vladeck says.

Although the FTC declined to discuss pending investigations, it has hinted that it's looking into data security incidents at

314
million

Number of spam e-mails stored at the FTC's Internet lab

FROM LEFT: FRED THORNHILL/AFP/GETTY IMAGES; DANIEL ROSENBAUM/THE NEW YORK TIMES/REDUX; ANTOINE ANTONIOL/BLOOMBERG

Speed Dial
Bob Beauchamp

The CEO of Houston-based enterprise software company BMC explains why his sales are up during the recession and how cloud computing is like renting a car

Your revenues have grown throughout the downturn compared with your competitors. Why?
We only do this. Software is less than 3 percent of revenues for **Hewlett-Packard**. It's 100 percent of ours. We wake up every day, the entire company, focused on software management. Our larger competitors have to focus on the other 97 percent of their business.

You compare cloud computing to renting a car instead of buying, because you don't always need the same kind of car, right?
When you go to rent a car, you just say, "I need a minivan." And a minivan will be waiting for you. That's kind of cloud computing. You set up predetermined profiles. Some of them are for low cost, not-so-high-performance. Some are expensive, super-high-performance.

Isn't security a concern?
I don't think companies are worried about sensitive information as long as it's in their private cloud. Many of them have no intention of using the public cloud. If buying a car is your traditional data center, and renting a car is your cloud, then the public cloud is a bus. It's super economical for a specific set of circumstances. But you're not exactly sure who else is going to be there.

BMC often comes up as a possible acquisition target.
We think that we have a very bright future as an independent software company. *—Katie Hoffmann*

Technology

Quoted

"The Internet's completely over.... [It's] like MTV. At one time MTV was hip, and suddenly it became outdated."
—The singer Prince, in an interview with the *Mirror*, on why he's pulled his music from iTunes and YouTube and shut down his official website



major Web services. Google's Wi-Fi flap provoked a response from Vladeck's boss, FTC Chairman Jon Leibowitz, who said the agency would take a "close look" at the matter. After Facebook in April changed its privacy policy in a way that troubled some users, four U.S. senators filed a complaint with the FTC.

On June 24, the agency announced a settlement with **Twitter**, concluding an investigation into a breach of user account information in 2008. Vladeck says Twitter failed to do enough to secure its site, allowing a hacker with a password-guessing program to commandeer customer accounts. The settlement subjects Twitter to independent security audits for 10 years. "We want to signal to industry that this kind of lack of control is not tolerable," says Vladeck. It was the agency's 28th data security case and the first to involve a social networking site.

The FTC's mandate allows it to take action against companies it considers unfair or deceptive; it cannot, however, set industry rules. The agency is creating "regulatory requirements without actually passing any regulation," says Paul Bond, an attorney who specializes in data privacy at Pittsburgh-based law firm Reed Smith. "It is a lesson to every company not to overpromise with respect to privacy." —*Douglas MacMillan*

The bottom line *After a decade of fighting spam and online fraud, the FTC is turning to social networks and scams targeting mobile devices.*

Management

No Grins at Best Buy Over an iPhone Video

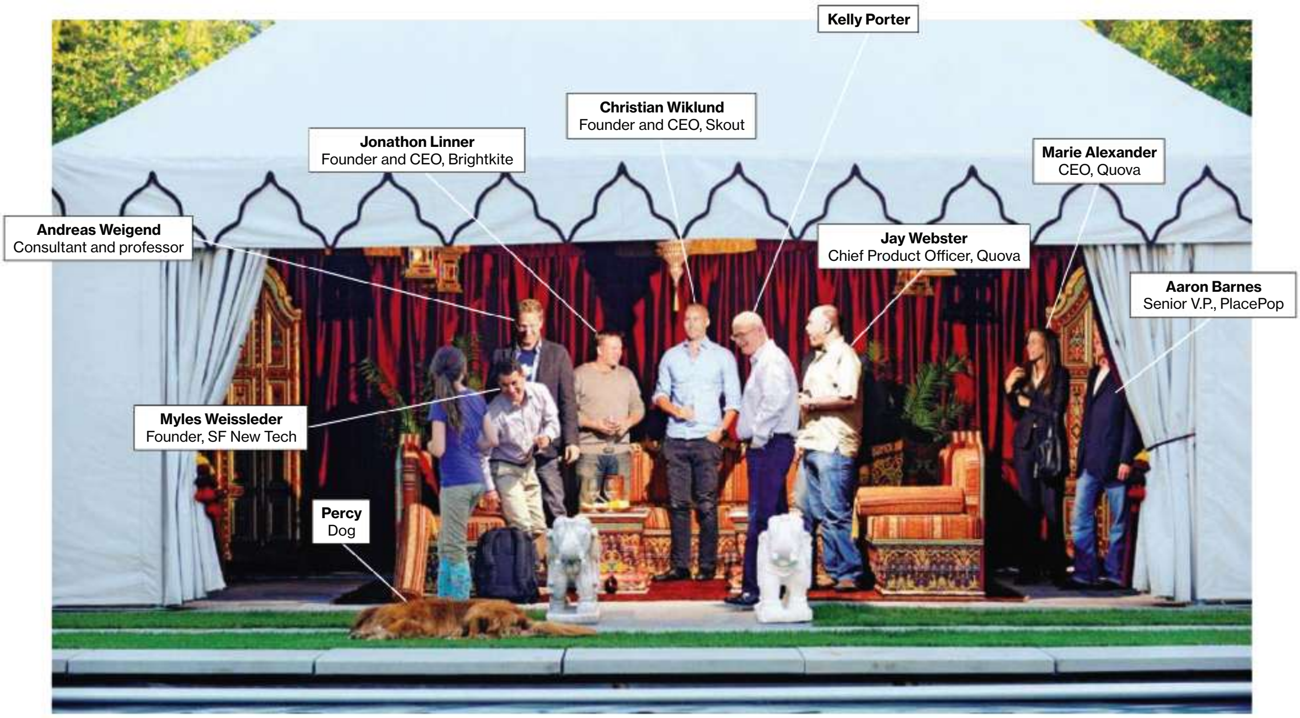


▶ The chain suspended a worker whose cartoon mocks Apple

▶ The video "is a comment on how blindly we follow brands"

On the Internet, everyone can hear you scream—including your boss. When 25-year-old Brian Maupin posted a goofy cartoon (above) to **YouTube** about an interaction between an imbecilic, iPhone-lusting customer and a salesman

Talking Tech in the Sultan's Tent



Silicon Valley investment banker Kelly Porter has his own way of finding deals: He invites CEOs of startups to his $28 million Los Altos mansion for dinner. Porter, a managing director of Woodside Capital Partners, begins pre-meal schmoozing in his "sultan's tent," near the pool. "I always wanted a place where I could bring people together," he says.—Ryan Flinn

at an imaginary "Phone Mart," he just wanted to make people laugh–and vent frustration from his job selling mobile gear at a **Best Buy** in Independence, Mo.

The profanity-laced video (Google "HTC iPhone video") shows a customer repeatedly asking for the new iPhone 4. An exasperated sales clerk informs her that the device is sold out and lacks features of the **HTC** EVO 4G. ("The Internet speeds are around three times faster" on the EVO, the salesman explains. Her robotic reply: "I don't care." "It has an app that will build you an island, then it f-----g transforms into a jet and flies you there." "I don't care.") The video is "a comment on how blindly we follow brands," says Maupin.

Maupin posted the video on June 24. Like the iPhone itself, it was an immediate hit: As of July 6, it had well over 3.3 million views. A handful of those came from executives at Best Buy's corporate office in Richfield, Minn., who discovered that Maupin had also posted three other videos. One was a rebuttal to the original and featured an **Apple** Store employee mocking a customer with a broken EVO. Maupin says the other two were "in-jokes" that poked fun at Best Buy's sales policies.

On July 2, Best Buy told Maupin that the videos disparaged the company and some products it sells. They asked him to take down the videos; he removed the two that mentioned Best Buy, leaving up the EVO-vs.-iPhone parodies. Maupin was suspended, and a store manager told him he would probably lose his job.

Best Buy has since relented, saying in a statement that although it's "an important situation," Maupin was welcome to return to work. Maupin, however, may have other plans. There's been an outpouring of sympathy for the aspiring graphic artist; on Twitter, fans have offered to donate money to his fledgling production company, and one created a new account: @hirebrianmaupin. He also has some leads on freelance jobs. "I'm a believer in the 'everything happens for a reason' theory," he says. "Maybe this could be a sign that I need to move on and put my full focus on getting my foot in the door of what I'd really like to do." —*Barrett Sheridan*

***The bottom line** Best Buy's negative reaction to a viral video created by an employee may help jump-start the cartoon maker's graphic arts career.*

CLOCKWISE FROM TOP RIGHT: PHOTOGRAPH BY ERIN PATRICE O'BRIEN FOR BLOOMBERG BUSINESSWEEK; NOAH BERGER/BLOOMBERG; SHARKPIXS/ZUMA PRESS

Innovator

Josh Reich



Fed up with lousy service at banks, the 32-year-old is building an alternative with the "mindset of a tech company"

Ask Josh Reich about banks, and he's quick to tell you they "suck." Traditional banks, Reich says, have become giant tangles of computer systems that can't talk to each other and can scarcely keep track of their customers. So the 32-year-old developed what he calls BankSimple, an alternative bank with "the agility and mindset of a tech company."

Reich, a former equity researcher at a New York investment fund, last year co-founded BankSimple with former McKinsey consultant Shamir Karkal, a fellow graduate of Carnegie Mellon business school. Though the pair have spent almost nothing on marketing and haven't started providing service, BankSimple has generated enough buzz online that thousands of people have already signed up. This fall, Reich plans to begin serving an initial 10,000 customers.

The Internet-only bank will have no branches. Members will get a single card that functions as a debit card but is also linked to a small credit line. When they have a positive balance, Reich says, they earn interest at "above average" rates. If it's negative, they pay interest but will face no overdraft fees. Customers can get cash from 50,000 ATMs in small banks, stores, and fast-food outlets across the U.S.

In May, Reich hired Twitter Web engineer Alex Payne to build BankSimple's site. Through it, customers will be able to set financial goals. "If you tell us, 'I'd like to save $5,000 by this particular day,'" says Reich, "we can say, 'the best way to get to that is by putting some money in a high-yield savings account and setting up a laddering of CDs.' You click 'yes,' and it automatically gets set up." Since BankSimple doesn't have a banking charter, the money will be held at FDIC-insured partners, mainly nonretail institutions that manage money held on gift cards and flexible spending accounts.

Reich plans to limit membership to smartphone users, though they will also be able to access their account online. The idea is to provide a bank experience more akin to Twitter than to Chase, with a notification system for debit transactions. After every swipe of a BankSimple card, a message will pop up on the customer's phone showing the amount charged and the balance–which serves both as a record-keeping tool and an instant fraud alert.

While others such as SmartyPig and ING offer similar online services, BankSimple's card notification technology is unique, says Jim Bruene, editor of *Online Banking Report*. Customers, though, may be leery of giving their money to a company without a charter. BankSimple "will have a huge hurdle in trust," he says. "Any new brand has to overcome that, but in financial services it's an order of magnitude higher." Still, the current backlash against Wall Street and the tarnished reputation of big banks have created an opening. "They've got a great name and great positioning for the times," Bruene says. "I think they've got a good shot." —*Ira Boudway*

Credo ▸ "BankSimple isn't a bank because banks suck"

Career ▸ A former researcher at a New York investment fund

Creation ▸ A card that alerts your smartphone when you make a purchase

Europe's Queen Of Private Equity



▶ Dominique Senequier runs one of the Continent's largest funds

▶ "We can be French and succeed in this industry"

Dominique Senequier is a woman holding a top job in a male-dominated business. She's built one of Europe's largest private equity firms in France, a country more famous for fashion than finance. What really sets her apart, though, is her conviction that now is the moment to invest in Europe. "Thanks to the attacks on the euro, the lower currency will stimulate growth," says Senequier, who oversees $25 billion as chief executive of the buyout unit at **Axa**, France's biggest insurer. "It's a heaven-sent opportunity."

Senequier, 56, has earned the right to be contrarian. **Axa Private Equity**, which she started 14 years ago, has delivered some of the industry's best returns, purchasing midsize European companies and stakes in U.S. leveraged buyout funds run by **Blackstone Group**, **Carlyle Group,** and **Kohlberg Kravis Roberts**. "Dominique is an independent thinker," says Blackstone Chairman Stephen A. Schwarzman, who sees her when he's in Paris about twice a year. "She's very smart, an excellent investor, and she has a very good view of economic trends."

After going 18 months without making any major investments, in April Senequier bought stakes in LBO funds from **Bank of America** valued at $1.9 billion, the largest transaction to date on the so-called secondary market, where investors trade private equity holdings. In Europe she purchased travel reservation website **GO-Voyages** from France's richest man, Bernard Arnault. And she is competing for deals ranging from a German specialty valve maker to the European liquefied petroleum gas unit of **Royal Dutch Shell**.

Senequier landed at Axa after what she calls the biggest career setback of her life. In 1995 she was the head of French insurer **GAN**'s private equity business, which she had started a decade earlier. The insurer was forced to sell assets as part of a government bailout. Backed by two private equity firms, Senequier bid for the unit. When GAN sold it to a rival bidder, she was forced to leave.

Fifteen years later, she still fumes about the sale. She was "betrayed by almost everybody," she says, sitting in her office overlooking the Ritz Hotel on the Place Vendôme in Paris. The setback was temporary. Senequier, who in 1972 became one of the first seven women to enter France's top engineering school, Ecole Polytechnique, turned for advice to a fellow alum, Claude Bébéar, CEO of Axa. Known in the press as "The Godfather of French Capitalism," Bébéar hired Senequier to start a private equity business for Axa.

Senequier saw it as a short-term job. "I had this idea of retiring after this first fund, or at least slowing down," she says. But the new perch gave her a fascinating window on global economic trends and money flows, "and here I am," she says.

Today, Senequier oversees 232 employees running about 50 active funds. The firm, she says, has $5 billion left to spend. She may start raising an additional $3 billion to buy stakes on the secondary market, having invested most of the current $2.9 billion secondary-market fund, people with knowledge of the matter say. She is also raising $1.9 billion for infrastructure investments. Senequier declined to comment on fund-raising.

$25 BILLION

The amount Senequier oversees in about 50 active funds

Her track record should make it easy for her to attract money. Axa's first two LBO funds



Senequier, at Axa's Paris headquarters, is bullish on Europe

netted returns of more than 30 percent annually, placing them in the top 25 percent of their category, according to research firm Preqin. Axa LBO III, raised in 2005, has earned 12.3 percent, above the industry's average. A secondary-market fund launched in 2004 returned 50 percent a year, making it the top performer among all funds started that year, according to Preqin.

Axa Private Equity was ranked first, ahead of **TPG**, Carlyle, and KKR, as the firm "best positioned for long-term performance" in an April study by the HEC School of Management in Paris. Among Axa's strengths are its skill at playing macroeconomic cycles and timing acquisitions and exits, according to Oliver Gottschalg, HEC finance teacher and author of the study.

Discipline has helped, too. Throughout the LBO boom, Senequier stuck to what her direct investment teams did best: targeting midsize European companies such as **Diana Ingredients**, a French pet food ingredient maker, and German shopping broadcaster **HSE 24**. "Senequier has gained international recognition in a way no other French private equity executive has," says Eric Meyer, senior **Société Générale** banker in Paris advising buyout firms. "At home in Europe, she kept away from the frenzy during the boom years and is now very active when others are still grappling with their legacy problems."

Not that her record is spotless. Senequier got burned when she wandered into some giant buyout deals. Axa's co-investment fund bought minority stakes in Texas utility **Energy Future Holdings**, which was taken private by KKR and TPG for $43 billion in 2007, and payment-processing company **First Data**, acquired by KKR for $27.5 billion in 2007. The value of those investments has been marked down in the wake of the credit crisis.

Senequier, a passionate pianist who goes to Venice and Salzburg to listen to opera, spends 240 days a year in Asia and North America raising money. She says that in her business, being French is more of a handicap than being a woman, because her country is not known for its private equity industry. "Our investors don't understand that we can be French and succeed," she says. "I tell them being a minority forces us to be more open to other

cultures and forces us to be modest."

Her mission now, she says, is to persuade people to invest in Europe. As she sees it, European governments, led by Germany, are making structural reforms to deal with long-term budget problems, laying a foundation for growth. They are also cutting spending to tame deficits, so they won't have the capital to fund infrastructure projects at home or in neighboring countries. That will open the door for private investors and sovereign wealth funds from developing nations with budget surpluses, particularly China. "We'll have to try to capture this flow, and this will be possible only if we show our willingness to invest" in those countries, too, she says. "It has to be a win-win game." *—Anne-Sylvaine Chassany*

The bottom line *A woman working far from Wall Street, Senequier has built a private equity empire that will grow bigger if her bet on Europe pays off.*

Quoted

I'm afraid that the U.S. and the European countries and Japan are in the process of making a policy error ...tightening fiscal policy even as the global economy begins to go into this soft patch...I'm worried that we could have not just a soft patch but a double dip.

—Former bull Barton Biggs, managing partner, Traxis Partners



Corporate Finance

Why GM May Be Worth More than Ford



▸ **It has a stronger balance sheet and sells more cars in emerging markets**

▸ **"We have redesigned the company to be something we weren't"**

It has been barely a year since **General Motors** emerged from bankruptcy, and already the carmaker may be worth more than crosstown rival and current industry darling **Ford Motor**. True, GM has just one quarter of profit behind it. And its shares don't trade as it prepares an initial public offering to wean itself off government assistance. Yet based on one analyst's figures, GM may be worth $47 billion, more than Ford's stock market valuation of $36 billion.

Looking at factors including potential earnings and cash flow, assets, and liabilities, JPMorgan Chase analyst Eric Selle puts a $70 billion price tag on GM. That would equate to an eventual return of 47¢ on the dollar for holders of bonds issued by GM before its bankruptcy that will be converted to stock and warrants in new GM. Based on the price those bonds traded at in early July, GM's value would be $47 billion.

Why the higher price tag for GM? For starters, the company has a better balance sheet. Thanks to the government-sponsored bankruptcy, GM owes just $15.4 billion to its creditors and has $30 billion in cash. After paying down $4 billion of debt on June 30, Ford owes some $27 billion and its cash hoard is below $20 billion, though the company is expected to have generated cash in the second quarter. Interest payments alone cost Ford $542 million in the first quarter, compared with $337 million for GM.

When it comes to selling cars, GM is much stronger in developing countries. It has 13 percent of the Chinese market to Ford's 2 percent, and its 20 percent of Brazil's car sales is double the share of its Detroit rival, according to Standard & Poor's debt analyst Gregg Lemos-Stein. GM Vice-Chairman and CFO Christopher P. Liddell told analysts on June 28 that the company has reduced costs to the point that it can make money even in today's depressed car market. "We have redesigned the company to be something we weren't a few years ago," he said.

That isn't to say that everyone is sold on GM. Its European business lost $506 million in the first quarter and isn't expected to break even until next year at the earliest. Ford earned a pretax profit of $107 million in Europe in the first quarter. And GM's pension plan is a concern. Today, it is underfunded by $26.8 billion, while Ford's is underfunded by $11.9 billion. Management is another question, says KeyBanc Capital Markets analyst Brett D. Hoselton. Under Chairman and Chief Executive Officer Edward E. Whitacre Jr., GM has had extensive turnover in the executive ranks, and few think that Whitacre, at 68, is the company's long-term leader. Liddell is a possible replacement, but GM has not laid out a succession plan. Says Hoselton: "I don't know who will be running the company."

GM's bond-based valuation bodes well for its pending IPO. The company is eyeing a November stock offering in which the government could sell one-fifth of its $41 billion stake. Once GM has a tradable stock, its value may climb. "The stock will be more liquid [than the bonds] so the universe of prospective buyers will be much greater," says Kirk Ludtke, senior vice-president of CRT Capital Group in Stamford, Conn. Ludtke calculates that Ford trades for about 5 times its estimated operating earnings for 2011, while GM is effectively at 3.8 times 2011 operating earnings. So even with its higher market value, he says, "we think GM is trading at a discount compared to Ford." *—David Welch and Keith Naughton*

The bottom line *By shedding many financial burdens in bankruptcy, GM gained some advantages over Ford. Now it must prove itself in the marketplace.*

Currencies

It's Open Season on Brokers in Venezuela

▸ **Chávez tries to curb the boom in bond trading set off by his rules**

▸ **"We're going to respond strongly against these thieves"**

Jofmar Heredia, a 31-year-old bond trader, was dismissed in May and is worried she may not be able to land another job anytime soon. "I'm unemployed and leaving my résumé in banks, but no one is calling," she says.

Heredia is not a victim of the

PREVIOUS SPREAD: ERIC DESSONS/JDD/SIPA. THIS PAGE, FROM TOP: G. PAUL BURNETT/THE NEW YORK TIMES/REDUX; ILLUSTRATION BY GREG MABLY. OPPOSITE PAGE: IMKE LASS/REDUX

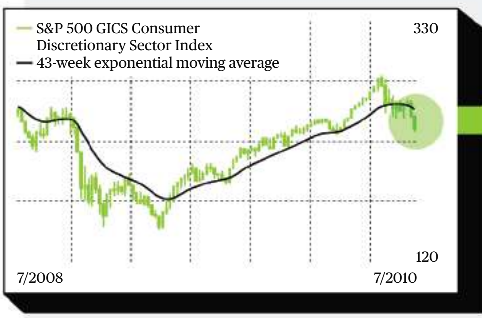


Blodget's vision of business news page 58 ▶

Stock Market Analysis

In the Charts, the Trend Is Not Your Friend

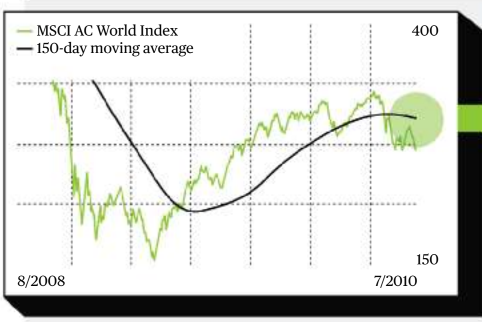
Technical analysts spend their days poring over market data in search of price and volume patterns they hope will provide insight into the health and direction of the financial markets. Some prominent analysts see troubling signs in indicators ranging from 10-year Japanese government bond yields to the Dow Jones transportation average. —*Suzanne Woolley*



Consumer discretionary sector index falls below its 43-week exponential moving average

Consumer stocks send a signal

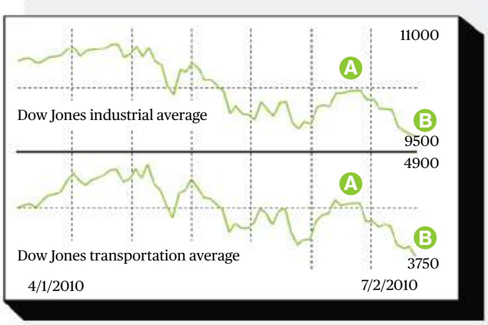
Discretionary consumer stocks, which typically do well in a strong economy and a bull market, recently broke below their 43-week exponential moving average (a type of moving average that gives more weight to recent data). "We've seen a **major trend break**, and that's not something we want to see for very long," says Mark Arbeter, chief technical strategist for Standard & Poor's. "This indicator has worked well in the past, and when it breaks down, it is usually not a good sign."



150-day moving average flattens and turns down, ending bullish phase in global stock markets

The moving average turns down

Carter Braxton Worth, chief market technician for Oppenheimer Asset Management, considers the **150-day moving average**—a running tally of the average of a stock market's closing prices for the past 150 days—to be "the single most important indicator." In late May, when that average for the MSCI All Country World Index flattened and declined, "the bullish phase in global equities ended," he says. When the trend moves down, he believes, investors who bought recently at higher prices are likely to sell at the first sign of an upward move, cutting rallies short.

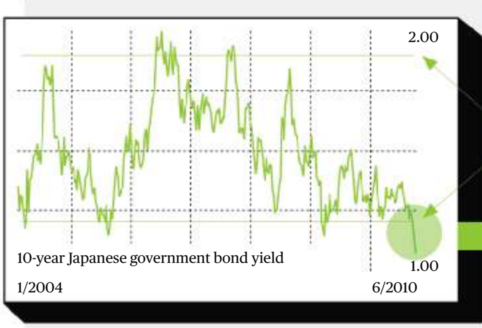


A Failed rally

B New closing lows provide primary bear signal

Dow Theory says sell

Dow Theory tracks the relationship between the **Dow industrials** and **Dow transports**. Both indexes had been rising since March 2009, but on June 7 fell to what Ralph Acampora of wealth-management firm Alverita calls "important secondary lows." That set the stage for a rally that failed to take them to new closing highs. A selloff in late June took the averages below their June 7 close and into bear territory, says Acampora, who has used Dow Theory for 45 years. He thinks the industrials could fall to 8,400 or 8,000, or 15% to 20% from current levels.



Resistance levels

Yield breaks below resistance levels of the prior seven years

Investors play it safe

Several indicators raise warning signs for Jordan Kotick, head of technical strategy at Barclays Capital. Investors seeking safe-haven investments globally sent yields on securities such as the 10-year Japanese government bonds below a key level in the week ended June 30. That same week, U.S. 10-year bond yields broke below a 12-month level, prices of base metals fell, and the **flight to quality** into the Swiss franc continued. Kotick says those are all signs "the stock market is feeling risk-averse, and therefore it will not be a good scene."

DATA: BLOOMBERG; STANDARD & POOR'S; OPPENHEIMER ASSET MGMT.; ALVERITA; BARCLAYS CAPITAL



global financial crisis. She's one of an estimated 2,500 Venezuelans whose livelihoods are at risk as a result of a government crackdown on the unregulated currency market. President Hugo Chávez has accused bond and currency traders of undermining the country's currency, the bolivar, as well as aiding capital flight and money laundering. "We're going to respond strongly against these thieves that are trying to wash their hands now," said Chávez in a May 23 speech to supporters. "There's no economic reason for the weakening of the bolivar. It's a huge fraud against the republic."

Since November, Venezuela's securities regulator, known as CNV, has taken control of about 40 brokerage firms and closed down four. The largest, **Econoinvest Casa de Bolsa**, had its offices raided on May 24 and four of its directors arrested. More than a quarter of the firm's 420 workers have resigned. The directors are still in detention and have not yet been charged. A spokeswoman at Econoinvest declined to comment.

Venezuela's brokerage industry boomed between 2005 and 2010, growing 42 percent to more than 100 firms, according to CNV. The explosion was an inadvertent consequence of currency controls imposed by Chávez. Companies and individuals must apply for government authorization to buy even limited quantities of dollars or other currencies, and transactions are allowed only at the official exchange rate. To skirt the restrictions, wealthy Venezuelans and corporations hired traders to perform bond swaps in which securities denominated in bolivars were traded for dollar-denominated assets abroad. The transactions effectively established a parallel exchange rate. That rate plunged to an all-time low of 8.2 bolivars per dollar on May 11, while the official rate has been fixed at 4.3 bolivars since the start of the year. (Importers of so-called essential goods are granted a preferential rate of 2.6.)

The number of brokerages will eventually be winnowed down to fewer than 20, according to Tomás Sánchez, president of CNV. While the Chávez government has made job creation a priority, Sánchez does not profess much sympathy for out-of-work brokers. "We know some workers will be affected by this situation," he says, "but they enjoyed exorbitant benefits and have savings." —*Corina Rodriguez Pons and Daniel Cancel*

The bottom line *The government aims to cut the number of brokerages to fewer than 20 in a bid to keep the bolivar from depreciating.*

17.4

PERCENT

The U.S. office vacancy rate in the second quarter, the highest level since 1993

DATA: REIS

Private Equity

KKR Goes Prospecting For Energy Deals

- Shale gas companies hold promise and need lots of cash
- "Opportunities for firms that have ...expertise and commitment"

With the leveraged buyout business all but shut down for the past three years, **Kohlberg Kravis Roberts** is looking to the oil and gas industry for its next big score. The buyout firm, whose shares will begin trading on the New York Stock Exchange on July 15, is targeting the ocean of natural gas that lies under parts of Appalachia and Texas in formations of shale rock. KKR is expanding its presence in shale, launching a new business with two industry veterans: David Rockecharlie, who is co-head of the energy group at Jefferies & Co., and Claire Farley, an adviser to Jefferies. The firm is also raising a $1 billion fund dedicated to making oil and gas investments.

Gas trapped between rocks and coal beds will account for 64 percent of total U.S. gas production by 2020, up from

THIS PAGE: ILLUSTRATION BY DUSHAN MILIC; OPPOSITE PAGE, FROM TOP: ALAN BERLINER/BEIMAGES/REX USA; ART+OBJECT; CHRISTIE'S IMAGES/BLOOMBERG

42 percent in 2007, according to analysts. The exploration companies that own most of the nation's shale prospects don't have the estimated $500 billion they'll need to develop them.

"The promise of shale and what it means to domestic oil and gas production is significant, but the cost to get there is very significant too," says Marc S. Lipschultz, global head of KKR's energy and infrastructure business. "That is going to present opportunities for firms that have the right level of expertise and commitment." KKR began focusing on the exploration business in 2008, when natural gas prices soared. "During the energy bubble, we started questioning where the world was going and how we could participate when pricing got rational again," Lipschultz says.

When prices came down amid the global economic slump, KKR went to work. Last year it paid about $350 million for a minority stake of **East Resources**, earning a quick profit of more than $1 billion when **Royal Dutch Shell** bought most of the company's assets 11 months later. In June, KKR signed a deal with **Hilcorp Energy**, a closely held exploration and production company based in Houston, to develop the Eagle Ford formation southeast of San Antonio.

"We're going to see a lot more private equity flow into this space," says Ralph Eads, chairman of energy investment banking at Jefferies. "There's huge demand for capital, and that capital's not all going to come from the public capital markets." KKR already has competition from big oil companies. Buyers have struck 11 U.S. shale gas deals worth $17.9 billion this year.

Environmentalists have raised concerns about the impact of drilling for shale gas. And KKR's move into the field is an unconventional bet for a private equity firm that traditionally targets mature businesses with steady cash flows to use to finance takeovers. "Only time will tell whether these deals are good values," says Ellen K. Hannan, an analyst at brokerage Weeden & Co. "It is impossible to know until the fields are developed and the price of natural gas rises. If it doesn't, the companies better drill a lot of wells." Ⓑ

—Cristina Alesci and Zachary R. Mider

The bottom line *Shale gas companies represent a departure from the typical buyout model. Payoffs will depend on the direction of gas prices.*

Bid & Ask

By Cristina Lindblad

Finance

$19.2bn

Amount Agricultural Bank of China raised in an initial public offering on the Hong Kong and Shanghai exchanges. If an overallotment option is exercised, the much anticipated IPO by China's largest lender could become the biggest on record, surpassing the **$21.9 billion** listing in 2006 by Industrial & Commercial Bank of China.

Food

Singapore's Wilmar International beat out China's Bright Food Group for control of the Australian company that is the world's second-largest exporter of raw sugar. Wilmar offered **$1.5 billion** for Sucrogen, a unit of Sydney-based CSR. The deal will give Wilmar, a leading exporter of palm oil, a roughly 4 percent share of the global sugar trade.

Info Tech

Google agreed to buy ITA Software for **$700 million.** Cambridge (Mass.)-based ITA supplies flight-information software to Orbitz Worldwide and Microsoft. The acquisition should position the Internet search giant to grab a bigger share of the online travel market, which in the U.S. generated more than $88 billion in sales last year.



Art Market

Two paintings from the collection of Princess Diana's family raised **$21.5 million** at an Old Masters auction organized by Christie's. Peter Paul Rubens' panel painting, *A Commander Being Armed for Battle* (above), sold for $7.8 million with fees, near the low end of its estimate. The work had been in the Spencer family for more than 200 years.



Music

An Australian court ruled that the band Men at Work must share royalties from the early '80s hit *Down Under* with Larrikin Music for using a flute riff from the 1934 song *Kookaburra Sits in the Old Gum Tree*. The band will pay 5 percent of what it has collected since 2002 and of future earnings.



Collectibles

A lock of hair snipped from Napoleon Bonaparte's head a day after his death in 1821 sold for **$13,000** at auction in New Zealand. The imperial memento mori was purchased by an unnamed collector in London.

Real Estate

Indicted financier R. Allen Stanford's Houston headquarters building sold for **$12.5 million** after an auction failed to attract competing bids. The 186,000-square-foot office tower is outfitted with mahogany paneling, marble floors, open stairwells with custom brass railings, a theater, and a private entrance through the black marble bathroom of Stanford's executive suite. The buyer: Houston real estate investor Dirk Laukien, who agreed to pay cash for the property.

Commodities

$757mn

The sum Cliffs Natural Resources is paying for the West Virginia coal operations of INR Energy. Cliffs is North America's largest producer of iron ore. The deal will give the Cleveland-based company access to another key ingredient in steelmaking: coking coal.

Health Care

India's Fortis Healthcare has offered **$2.3 billion** for the 74.7 percent of Singapore's Parkway Holdings it doesn't already own. The bid by India's No. 2 hospital operator tops an earlier offer from Khazanah Nasional, Malaysia's sovereign wealth fund. Fortis is intent on gaining control of Parkway, which runs 16 hospitals in Asia, a region where health-care spending is rising by as much as 17 percent annually. A bidding war could ensue.

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Morningstar *FundInvestor*, March 2010. Morningstar evaluated the 25 largest fund groups (based on asset size) on the following measures: manager retention rates over the last 5 years; fund management tenure (how long the portfolio managers have managed their funds); fund managers' investment in the fund they manage; 3-year asset-weighted performance of their retail share classes; and Morningstar Stewardship Grades, which evaluate a fund group's culture, fees, Boards of Directors, manager incentives, and regulatory records. Data used were as of 2/28/10 except for manager retention, which is through 12/31/09.

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The Lost Summer

In the beach towns and bayous of the Gulf Coast, the hard times wash up before the oil

By Ken Wells with Katarzyna Klimasinska
Photographs by Sage Sohier

It's supposed to be high season in Biloxi, Miss., but George Griffith stands on a stretch of beach where seagulls, tacking into a bullying southeast wind, easily outnumber the dozen or so die-hard tourists testing the surf.

"Look, nobody's here," says Griffith, one eye on a bruise-blue rainstorm gathering offshore. Griffith knows the ebb and flow of this place well. In 1986 the 47-year-old Iowa native abandoned Midwestern winters for these warm and sugar-sanded shores. He's spent the past 13 years working his way up to manager of R.A. Lesso Seafood, a longtime, family-owned Biloxi shrimp processor.

It was, he says, a great life, until BP's Deepwater Horizon rig blew up on Apr. 20. Now, the catastrophe that won't end—BP's gusher has spewed oil into the gulf for nearly three months—is playing out like a bad summer movie up and down the Gulf of Mexico's 1,631 miles of U.S. coastline.

May and June mark the peak of shrimp season here, says Griffith, but Lesso's business is off about 65 percent; federal and state authorities have shut fishing grounds, and hundreds of boats that would normally be hauling in shrimp have been hired by BP for its cleanup efforts. Lesso's 35 employees have taken pay cuts as processing has plunged from 72,000 pounds a day to 25,000.

Numbers like this mount up along the northern Gulf Coast, from Texas to the Florida Panhandle, where oil has marred dozens of miles of shoreline. Fear of more—federal maps show oil menacing the shore from Terrebonne Parish, La., to Fort Walton Beach, Fla.—is putting a dent in the Gulf's $100 billion annual tourism industry. Anecdotally, business is off about 50 percent at Biloxi hotels even as most of the city's beaches remain open. In Orange Beach, Ala., condominium complexes that ought to be full are half empty. An Alabama Gulf Coast visitor's bureau survey on July 4 showed tourism had plunged 50 percent from the previous year.

In normal years a substantial commercial fishery helps feed these tourists and the nation. Louisiana fishermen alone catch up to 120 million pounds of shrimp in a good year; the wider Gulf produces about 69 percent of the nation's shrimp and 70 percent of its oysters.

Dean Blanchard, a blunt-talking 51-year-old Cajun, figures the BP gusher has cost his Grand Isle (La.) shrimp processing plant about $30 million in sales to date. Grand Isle's beaches were among the first to be hit by BP's oil, and he was soon shut down. "I got a death sentence from Day One," he says. From 90 employees, "I'm down to eight workers."

True, some ex-employees are

skimming oil for BP, and it's proving far more lucrative for them than shrimping ever was. Those lucky enough to sign on with BP are getting as much as $2,000 a day for their boats. Others are getting BP payouts, collecting $2,500 a month.

"But some of these are guys that were making $5,000 to $6,000 a month with me," says Blanchard. "The idea that BP is making people whole is a lie.... They are making people that were poor, rich, and people that were rich, poor. They've turned everything upside down."

For Pete Gerica, a 57-year-old New Orleans-area crab fisherman, the spill isn't just a blow to the economy but to his autonomy. With about 35 percent of the Gulf's federal waters and 57 percent of the state's fishing grounds now closed, Gerica has found himself fenced out of his traditional waters and stuck, with plenty of company, in Lake Pontchartrain, just north of New Orleans. The 40-by 24-mile brackish lake may seem large, "but there are 40 to 50 of us in there now, with some guys fishing 300 to 500 crab traps," says Gerica. "That's thousands of traps–an unreal number. The pie is getting cut thinner and thinner."

Tinakon Dan Sananikone, 49, is feeling pressure too. A Laotian immigrant who came with his family to the U.S. in 1976, he founded a successful crab wholesaling operation. Before the spill, about 20 crabbers sold to him at his docks in Lockport, La., about 50 miles south of New Orleans. Since the spill, he's lost about 70 percent of his sellers; their grounds have closed or they've gone to work for BP. "We're just trying to hang on," he says.

Griffith, staring out at a thunderstorm that is now clearly headed for the beach, says at least storms come and go. A Katrina survivor–he was swept from a Biloxi building by a surge and nearly drowned–he sees no end to the BP nightmare. In past years he easily made $10,000, including overtime, in the prime six weeks of the season; this year he will make about $3,000 to $4,000. Next to go, he fears, will be his job.

"But it's not just our business," says Griffith. "It's hotels, the restaurants, the souvenir shops. It's the lady we buy our plastic bags from. She's got a warehouse full of bags. I feel bad for her, but we can't buy the bags because we don't have anything to put in them."



Lynn Thomas

53

Orange Beach, Ala.

The year kicked off with a 20 percent increase in sales at Tallulah's Treasures, so owner Thomas took out a loan and stocked her gift shop with more sandals, parrot-shaped fans, and jewelry. "This was supposed to be the biggest summer since 2004," she says. It was also going to be the year she paid off $45,000 in debt. Over the Memorial Day weekend, however, the tourists stayed away, and Thomas realized the spill would hurt her long before the oil ever ruined nearby beaches. "For a while, I woke up crying and I went down to sleep crying," she says. "I can handle things that are in my control, but the things that are out of control tend to stress me out."





James Ingram

age undisclosed

Cut Off, La.

Ingram, who doesn't reveal his age, not even to his wife, is known as "Mr. Big" in Cut Off. He divides his time between detailing cars and boats, running a taxi service, and raising his grandsons Jeramie, 3 (by his side), and Jayme, 7, (beside the truck). He and his wife Crystal, 25, own LA Detail, a cleaning and restoration shop by LA 1, the highway that leads to Grand Isle, once a holiday destination for fishermen, and Port Fourchon, the land base for offshore oil-services providers. Demand for LA Detail's services declined after the Deepwater Horizon rig exploded on Apr. 20. "Who's got money, they're going to hold on to it," says Ingram. Fishermen these days are selling their boats rather than having them cleaned, and oilmen no longer splurge on $700 cab rides to Houston, about 350 miles away. The Ingrams spend their days watching the news and weather forecasts, trying to figure out when and from where their next customer will emerge. "You've got to catch anything that comes," says Ingram.

Jimmie Ordoyne

65

Boutte, La.

Ordoyne has spent his life in southern Louisiana working at jobs that "nobody else wanted," mostly in the sugarcane and oil fields. Last year he started selling vegetables at a stand by the side of U.S. 90, the Gulf Coast Highway. Most of Ordoyne's clients are oil workers and fishermen, and with the rigs and waters shut down, they're spending less on his watermelons, Creole tomatoes, and peaches. "People ain't buying as they used to, they're tightening up, no money," Ordoyne says. "I worry about everything. I worry about the people. I know what it is to be poor. I know what it is when you ain't have no money in your pocket."





Troy Wilbur

39

Long Beach, Miss.

Last year, Wilbur was scouting resort properties from Florida to California. In November he made his move, buying the Long Beach Lodge. Five months later came the spill; soon after, Wilbur got a telephone call from a 20-person kayaking group in Missouri, canceling a three-day stay in June. Business is down 30 percent, so Wilbur has increased advertising and is offering discounts to government officials in town to check water and beach conditions. Now that he's targeting cleanup workers instead of upscale retirees, he worries that "it will probably be dead for a little bit" even after the tar ball collectors and ocean conservation experts are gone.

Tinakon Dan Sananikone

49

Lockport, La.

Sananikone (right) is owner of Never Enough Seafood, a blue-crab wholesaler. A native of Laos, he runs the business with his wife and sons Shawn, 28 (left), Tom, and Albert. After waters were closed to fishing, Sananikone saw a decline in both supply and workforce; 7 of his 10 fishermen left for better-paying clean-up jobs. Crabs from Louisiana have more meat than Georgia crabs, Sananikone says, yet he may lose out to competitors in Savannah. "We're taking it day by day," he says. "I really do hope they stop the spill soon, so we can get back to normal." Slower business leaves him with more time for his 10-month-old granddaughter Viviyan (center, held by Sananikone's daughter-in-law Christina, 23). He has been selling crabs since 1988 and says this is the hardest situation he's ever faced.





Shirley Valdez

43

Long Beach, Miss.

This winter, Valdez and her husband, Jose, 43, decided to add chair and umbrella rentals to their snow cone stand in Long Beach. They spent almost $5,000 on 12 sets that sit in storage now because nobody needs them. The beach is empty, and snow cone sales have fallen more than 50 percent. Valdez had wanted to go on a cruise to Mexico this year. Her son, Jose R. Valdez III, 19, who works in the shop, worries he may be out of his job soon. "As soon as there is oil on our beaches," she says, "we will have to shut down. We will be put out of business."



Ernest Cheramie

48

Golden Meadow, La.

Just before the waters were closed, Cheramie bought the boat of his dreams for $10,000. “I always wanted something big,” he says. “I’ve been fishing all my life. When I was 14, I quit school and became a commercial fisherman with my dad.” He’s offered his 49-foot vessel to help clean up oil and works on it while he waits for a call from BP or for the waters to reopen. He says the bayou in Golden Meadow where he keeps the boat, shows no sign of contamination. “I ate some crabs from the bayou the other day,” he says. “They didn’t get me sick, they didn’t get me anything, there’s nothing wrong with them.”





Roger Camardelle

78

Grand Isle, La.

After Hurricane Katrina tore through the Gulf Coast in August 2005, Camardelle saw a business opportunity. He bought a campground and marina in Grand Isle. With reservations up last winter, he added three campsites and invested $15,000 in 11 new slips. They haven't been used. "If this would be a regular fishing summer, all of it would be full," he says. "In fact, I would be turning people out. June, July, August, yes, I would have to be turning people out." Camardelle wears a pendant that commemorates the 56-foot wooden shrimp boat he built with his brother in 1987. Recently, he's been passing the time making cypress chairs.





John Ehrenreich

68

Pensacola Beach, Fla.

Since the spill, Ehrenreich has had a lot more time to read his favorite books, such as *The Outline of History* by H.G. Wells and *Cosmos* by Carl Sagan. It's Friday night, there's no one on his mini-golf course, and the parking lot is empty. He started Bonifay Water Sports in 1976 with one umbrella and a Jet Ski that nobody knew how to use. Later he added mini-golf, go-carts, and a snack bar. Ehrenreich believes that sooner or later people will come back. "It is the desire of boys to meet girls, and girls to meet boys," he explains. "There's always going to be need for a place like this."



Jeff Ring

48

Cheryl Griffin

43

Fort Walton Beach, Fla.

Ring and his sister Griffin have worked in their father's Buccaneer Gift Shop all their lives. As the BP disaster cut into their business, they began discounting their Coca-Cola collectibles—bottle carriers, piggy banks, cowboy hats, signs—by as much as 30 percent. They cut the price of a 1957 vending machine from $3,499.98 to $2,998.98. Still, sales are down roughly 20 percent. They have about $150,000 worth of inventory in the store, so if tourists don't come back, the shop will have to switch to a "different battle plan" and sell more over the Internet, Ring says.



Tony Kennon

Age 53

Orange Beach, Ala.

At 10 a.m., Kennon is having his twelfth cup of coffee. The mayor of Orange Beach is working 16 to 18 hours a day, 7 days a week. "Sometimes I feel like I'm Don Quixote chasing windmills, you know, battling BP," he says. He says the company doesn't pay enough attention to the needs of his 5,330-resident city. He gave up a planned week's vacation in Lake Forest Ranch, Miss., with his family to stay and help the city. Tourist traffic has fallen 50 percent, and because the city budget relies mostly on lodging and retail sales taxes, Kennon anticipates that he may either have to lay off some of the city's 225 employees or lower everybody's pay.



Michael Dyson

42

Pass Christian, Miss.

A few weeks ago, Dyson (left), general manager of Shaggy's Harbor Bar & Grill, sailed 60 miles out into the Gulf to see the oil and figure out how serious it would be. "The smell was so bad that if it came in here, I'll have to shut down—it's toxic," he says. "It gave me an instant migraine headache within 5 minutes. Another guy that was with me, he got ill, basically ill, within 20 minutes." Shaggy's employs almost 75 people. The restaurant has increased the price of oyster dishes, its most popular, by $2 since the spill, even as the cost of the shellfish has doubled. "The cost of the oysters is killing us," he says. "I'm making no money selling oysters right now, but I have to because I have them on the menu." Shaggy's kitchen manager, Roger Abernathy, 50 (right), passes his days wandering around the big, quiet restaurant talking to customers and waitresses. On a recent day, he sent two of his three cooks home because there was no work. Last year, Shaggy's sold 18,000 cheeseburgers, this year Abernathy thinks it will be 11,000, at best.



Maggie Halsey

47

Fort Walton Beach, Fla.

When your business is beach weddings, says Halsey, it gets to where you're scared to pick up the phone for fear of another cancellation. Halsey owns Barefoot Weddings, which arranges ceremonies near Fort Walton Beach. Already, 16 couples have canceled because of the spill. Halsey keeps the deposits, from $200 to $700, but that's only a fraction of what the bill would be. "We're referring people to BP's claim office for their deposits," she says. She tells customers that if tar balls appear on the sand the day of a wedding, or booms float in the background, they can be removed from pictures with Photoshop. But the cancellations keep coming.





The infamous former Internet analyst is betting that the future of news looks like his website, The Business Insider—a blaring reflection of the collective id of Wall Street

HENRY BLODGET'S ROAD FROM RUIN

By Andrew Goldman. Photograph By Ethan Hill

Henry Blodget is a man who will be neither easily riled nor insulted. When, in March, he learned that a blog had labeled a section of The Business Insider, the gossipy financial website he founded three years ago, "The Hooters of the Internet," Blodget waited a couple hours before tweeting: "The Hooters of the Internet. I like that." In May, Blodget predicted on his website that within just a few years, The Huffington Post will take in over $100 million in advertising revenue—more than triple the $30 million the site says it will bring in in 2010—and that by 2015 or so, it would be generating more from advertising than *The New York Times*. In an endnote, he disclosed that Kenneth Lerer, a co-founder of The Huffington Post, is also an investor in The Business Insider, or TBI as it is known by its readers. "Thank you for the disclosure," someone called The Truth typed in the piece's comments section. "Unfortunately, it invalidates everything you write. You're a mouthpiece." It took Blodget less than a minute to post his response: "Thank you!," he wrote, like a fraternity pledge embracing his hazing.

When you have been vilified as publicly and intensely and for as long as Henry Blodget, you will by necessity grow the skin of a pachyderm. For the past eight years, Blodget has lived his life as a fast-typing symbol of Wall Street malfeasance: In 2002, then-New York Attorney General Eliot Spitzer accused Blodget, who was Merrill Lynch's star Internet analyst at the time, of publishing buy and sell ratings on stocks based on how much investment banking business Merrill had gotten, or hoped to get, from any given company, as opposed to the companies' underlying value. Since then, Blodget's life has been filled with ironies. The technological revolution that he championed—the Internet—triggered his downfall after Spitzer released a damning series of internal e-mails Blodget had written. He helped create one of the most spendthrift industries in history, despite his being a known penny-pincher. And not long after Blodget sought his redemption by becoming a member of the media, his old nemesis, Spitzer, tried a similar trick with plans to host a new show on CNN. Now Blodget finds himself the proprietor of a website that often makes the editorial practices of other gossip outlets look fusty and conservative by comparison.

He is betting that he knows what the future of business news looks like. If he fails, many will celebrate. But if he succeeds, it's inevitable that critics will charge—as some have already—that Henry Blodget is once again asking for trouble.

In 2008, less than a year after Blodget launched The Business Insider, Spitzer resigned over a prostitution scandal, which people imagined would be a cause for celebration for Blodget. He says he took no joy in his old adversary's fall. "I was absolutely shocked," he says. "I really thought he was on course to being President of the United States. And I was sort of feeling, O.K., I'm a step along the way up there for him. Right after it happened, I got a bunch of e-mails from friends saying, 'Wow, what goes around comes around. Amazing!' And then I got one saying, 'Well, don't think this lets you off the hook, you scumbag. He was just boning whores! That's nothing compared to what you did.' "

Blodget—being a man who puts far more value on new opportunity than old-world concepts like vendetta—tapped out an e-mail the following year to Spitzer inviting him to talk about the financial crisis on his Yahoo *Tech Ticker* online financial talk show. "Our guest today is the former Governor of New York and the man who destroyed my Wall Street career," Blodget said on the show, smiling as Spitzer chuckled. His friendly overture impressed Spitzer, who now gushes about Blodget like an old drinking buddy. "Listen, I think Henry's great," Spitzer tells me. "And the issues that led to the analyst case are not of such moral dimensions that these were people who were, you know, out killing babies."

Spitzer has reasons to offer Blodget forgiveness. The Securities & Exchange Commission, the NASD, and the New York Stock Exchange do not. An investigation found that between 1999 and 2001, Blodget had issued research reports on an Internet stock, go2.com, that were materially misleading and reports on six more Internet companies that "contained exaggerated or unwarranted claims" and/or "opinions for which there was no reasonable basis." Blodget was hit with $4 million in fines and repayments to settle the charges and was banned for life from the securities industry. His return to public life with TBI is a bit like "Shoeless" Joe Jackson pitching batting practice: He's not technically back in the game, but he has found a way into the ballpark.

The Click Rate

On a muggy Friday afternoon in June, Blodget, 44, sits in a small meeting room next to TBI's no-frills Manhattan offices. The walls are whitewashed, guests get water in paper cups, and because the tiny square table in front of him looks like it might have been made for six-year-olds and not a six-foot-tall man, Blodget keeps his legs splayed to avoid kneeing it.

In addition to doing a good deal of "aggregation" of other media outlets' content, TBI aspires to be a newsgathering operation, one that will someday eliminate the need for publications like the *Financial Times*. The bullpen, where all 12 of the staff contributors sit, emits none of the familiar sounds of a newsroom—it is silent but for the clicking of keyboards

"I'M A GREAT ADMIRER. HE HAS THE DETERMINATION OF SOMEONE DIGGING THEMSELVES OUT OF DISGRACE," SAYS DENTON



The financial analyst as a young man: at CIBC Oppenheimer in 1998

and the air conditioning. There are no bellowing editors, no reporters with phones up to their ears. In fact, reporters on each "vertical" (the site is divided into several silos focused on technology and finance) share one phone, which would seem to discourage classic gumshoe reporting, and several work at two computers. Much of the content is produced by young reporters, many of whom have only ever worked at blogs, as well as modestly paid interns. The most prolific contributor of all is Blodget himself, who not only begins posting when he rises at 5 a.m. but also once had a habit of handing out crisp $20 bills to TBI reporters who delivered scoops.

Blodget and his young team have found support among the pioneers of New Media. "Henry's got incredible energy, creativity, he knows business inside out, is a first-class editor and a good businessman," says The Huffington Post's Lerer. Blodget has even found a fan in Nick Denton, the British former newspaper journalist and founder of Gawker Media, who, like his family of websites, is not known for lavishing praise on much of anything. "I'm a great admirer," says Denton, via instant message. "He has the determination of someone digging themselves out of disgrace."

While time seems to have dispersed the mob of torch-wielding villagers seeking to barbecue Blodget over his perceived Wall Street sins, a new rabble of critics has gathered, furious about what his new media venture says about the future of the news business. The big knocks can be summed up by "WTF-Businessinsider.com," a 3½-minute videotaped rant posted online in June by a 37-year-old performance artist named Loren Feldman, whose site 1938 Media is known for skewering Internet personalities with online puppet shows. "When does embarrassment set in for any of you guys?" Feldman shouts in the video, apparently enraged by the fact that a senior-level TBI reporter had to consult Wikipedia to identify the legendary management expert Peter Drucker. Feldman sums up the criticisms, familiar to Blodget and all of his competitors: that TBI "scrapes" content, i.e., much of what the site posts is actually just repurposed news from other websites; that TBI uses gimmicks to generate Web traffic, including Web slide shows, which require viewers to click through several times. A typical recent example: "18 Awesome Wall Streeters and the Celebrities They (Apparently) Look Like."

Blodget sees nothing to apologize for. Is there really value in creating stories like "15 Ways Justin Bieber Is Taking Over the World," just because people will click on it, I ask him. "There's no question about that," says Blodget, who has a habit of listening to every question while flashing a megawatt smile. "Every minute, we're watching the click rate of every story we have on the site. Part of the job of our editors is recognizing that what we're trying to do is create content that people want to read.... And I'm under personal pressure to build a self-sustaining business. Without that, we disappear."

The Scandal

Blodget grew up on Manhattan's Upper East Side, the son of a commercial banker also named Henry Blodget. He attended the exclusive prep school Phillips Exeter in New Hampshire before studying History at Yale, where he sang bass in a singing club called the Society of Orpheus & Bacchus (SOBs). Considering his prominent role in the Internet Gilded Age, it's amusing that Blodget is remembered for his parsimony. At Yale, he was often the one at the bar to order water to avoid being stuck with the check, according to his friend, Tad Low, founder of the production company Spin The Bottle. Even at Merrill Lynch, where Blodget earned as much as $12 million a year, junior analysts on his team recalled that he always seemed to be wearing the same torn red sweater on weekends. "Seriously, I think I still see him wearing that sweater around the neighborhood," says Virginia Genereux, a fellow former Merrill analyst who now lives near Blodget in Park Slope, Brooklyn.

After college he taught English in Japan, then moved to San Francisco and wrote what he calls a "terrible, fortunately unpublished" book about the experience while supporting himself giving tennis lessons. He had hopes of becoming a writer. "But," he writes in an e-mail, "I didn't have the passion or confidence (or skill) to make a career out of writing." In June 1992, there was an accident at his parents' home in Connecticut. "It was an electrical fire," Blodget e-mails. "The claw foot of an old brass lamp was apparently resting on the lamp's power cord ... eventually the friction wore through the cord, and one night it shorted and sparked." His mother perished in the fire. (His father is still alive.)

In 1994, Blodget joined Prudential Securities' analyst training program, then CIBC Oppenheimer, where he became the senior Internet analyst. It had become a hot field following the 1995 initial public offering of the Web browser Netscape; overnight, a company that hadn't existed two years before was valued at $2.2 billion.

In December 1998, much of Wall Street was bearish on Amazon.com, which had been a public company for a year and was trading at $240 a share. Noting in a research report that "Amazon's valuation is clearly more art than science," Blodget set a one-year price target of $400, which was laughable to many until three weeks later, when AMZN zoomed past that mark. Blodget denies he intended the Amazon call to be a gambit for attention, as many have since interpreted it. He says he was actually responding to members of the Oppenheimer sales force, who felt like he had been unnecessarily conservative in his previous Amazon reports: "Stop being such a wuss," he says they told him, "and tell us what you really think." The call made him famous among the new breed of stay-at-home day traders, who piled into the stocks he promoted, turning his predictions into self-fulfilling prophecies.

In 1999 he became a senior Internet analyst at Merrill Lynch, which had become focused on competing against Morgan Stanley and its star Internet analyst, Mary Meeker, who was attracting a huge proportion of high-tech initial public offerings. Blodget had become a media celebrity, a regular face on the ascendant financial cable network CNBC. Although the IPO boom had created a Ferrari-and-

"The man who destroyed my Wall Street career": Blodget interviewed Spitzer in August 2009



FROM TOP: SUZANNE OPTON/TIME & LIFE PICTURES/GETTY IMAGES; TECH TICKER - YAHOO! FINANCE

Cristal class out of the IPO nouveau riche, Blodget says he was working too hard to indulge. "I can't tell you how unglamorous it was, relative to how people probably imagine it," he says. "I was mainly sleeping in hotels or on airplanes. I was working all the time." He met his wife, Amy—with whom he has two young daughters—in 1997 at the baggage carousel at San Francisco International Airport.

In some corners, Blodget developed a reputation for rigor. "Even when he was young and inexperienced, he always struck me as someone who was incredibly wise and mature," says Richard Hanlon, a former AOL investor relations executive and an early angel investor in TBI. "The irony is that he then goes and gets himself in trouble for something incredibly naive.... He allows himself to be manipulated by his own firm."

Blodget says that if he had read only Spitzer's report and newspaper stories about the scandal, he too would have judged himself to be, in his words, "a two-faced sleazebag." And although he says that there is a context that would better explain why, for instance, he gave Lifeminders—a stock that he labeled a "POS" [piece of s--t] in an internal e-mail—a buy rating, he's legally bound from doing so, partly by his settlement with the SEC. He points out that he never suggested that investors keep more than 10 percent of their stock portfolios in the Internet sector and reminds me that his 1998 Christmas gift to his professional clients was Charles Mackay's *Extraordinary Popular Delusions and the Madness of Crowds*, the 1841 classic about financial bubbles through history. "One of the things I most regret is not just having the balls to downgrade all the stocks in 1999 and saying, 'You know what, as we have been saying, it probably is a bubble, we don't know when it's going to end, but it's going to end at some point, and we would rather be out now than too late,'" he says.

"I THINK IN 10 YEARS, PEOPLE WON'T LOOK AT NEWSPAPERS AS THE ONLY MODEL FOR REAL JOURNALISM— YOU'LL HAVE NATIVE COMPANIES BUILT ON THE WEB WHO HAVE A VERY COLLABORATIVE APPROACH WITH READERS AND SOURCES," SAYS BLODGET

By August 2000, when Blodget finally downgraded stocks like eBay, iVillage, and Webvan, they'd already fallen, respectively, 60, 88, and 86 percent from their 52-week highs. Blodget even invested $700,000 of his own money in Internet and tech funds in early 2000, which became virtually worthless after the bubble burst that year.

"Holding Henry up as an example is just scapegoating," says his friend Tom Phillips, a former Google senior executive who is now chief executive officer of Media6Degrees, an Internet marketing firm. "He individually was one of the most honest people out there. The institutions and the whole culture were wrong."

Blodget's friends say that if the Spitzer investigation comes up in conversation, he hastens to change the subject, and he's reluctant to talk about the psychic wounds the scandal left. But in an exchange about whether he's related to a Henry Blodgett from Massachusetts who fought in the Revolutionary War, the shame leaks out. "I don't know about the guy who fought in the Revolution," he e-mails. "I do know there are some other Henry Blodgets back there whose names I inadvertently trashed, starting with one I love—my dad. I'd very much like to fix that."

From Tiger to Tipper

At his office, Blodget provides a demonstration of how he manages the flow of content on TBI. "For a Friday afternoon where everyone's watching World Cup, this is doing pretty well," he says of the story sitting at the top of the home page, "The 30 Most Famous Yale Students of All-Time." The Web slide show features photos of Yale alumni with biographies pulled from Wikipedia. The main illustration is an image of Claire Danes—titillating photos of women are a TBI trademark. Blodget points to a red number on his screen indicating that the Yale slide show is receiving about 400 clicks per hour. The number doesn't actually represent a whole hour's worth of data; the counter is immediately extrapolating from the clicks it's getting to estimate how much traffic the story will receive in one hour's time. This ability gives TBI editors an idea of how something is performing within a minute of posting, so they can adjust the presentation accordingly. A photo or headline could be changed, for example, to see if it improves traffic. "Maybe there's a story down the page that's doing extremely well, so we'll put it right on top and it will suddenly explode, because it's what people want," Blodget says. "We're very much reacting to what our readers want to read."

In 2007, Blodget was approached by venture capitalist Kevin P. Ryan, who had made a fortune as CEO of Internet ad firm DoubleClick, which Google acquired for $3.1 billion in 2008. Ryan felt the market was missing an East Coast technology news website and sat down with Blodget, whose most significant experience inside a news organization was three months as an assistant at CNN in the early Nineties. Blodget, Ryan, and Dwight Merriman, Ryan's VC partner, each contributed about $100,000, and in 2007 the Silicon Alley Insider was born.

Ryan and Blodget soon figured out that micropublishing—creating advertising-supported content for a very small, precise audience—didn't work economically; advertisers are more interested in reaching mass audiences than they are in pinpoint targeting. Blodget added new content and expanded the site into a collection of blogs under the TBI banner—Wall Street, tech, media, and the like. He started aggressively using search engine optimization, or SEO—essentially finding out which subject are Googled most often and writing posts about those subjects, leading to coverage of everyone from *The New York Times*' Paul Krugman to Tiger

Deputy Editor Dan Frommer, Publisher Julie Hansen, and co-founder Kevin Ryan of TBI



OPPOSITE PAGE: MIKE MCGREGOR/CONTOUR/GETTY IMAGES

Woods to Al and Tipper Gore. He also raised money—about $3 million in venture capital funding in addition to another round he is completing now, and his staff has grown from 3 to 30 employees.

The strategy seems to be working: According to Blodget, his site is getting about 4 million unique visitors per month, which translates to about 2 million people. TBI counts Mercedes-Benz, American Express, and Harvard Business School as advertisers, and Blodget claims that TBI will break even this year; he hopes that display ads soon will be only one part of the company's revenue. He wants to develop a business model similar to the blog TechCrunch, which makes a significant portion of its revenue by hosting multiday conferences, a ticket to which costs almost $3,000. Blodget is also trying to launch a business-to-business subscription service that would provide companies with the kind of detailed analysis he once provided on Wall Street.

Blodget's hits-at-all-costs strategy has generated a healthy share of debate in the online media world. In March, John Carney, the managing editor of Clusterstock, TBI's Wall Street vertical, was fired, by many press accounts because his posts weren't attracting enough clicks to justify his high salary. The Thomson Reuters business blogger Felix Salmon took to Twitter to defend his dismissed friend, criticizing TBI for its click-baiting practices, specifically citing a story about American International Group's distressed asset sales that was illustrated with two attractive women in bridal gowns making out. "Henry talks about selling high-value analysis to financial professionals, but at the same time he'll put up two girls kissing and embrace being called the Hooters of the Internet," Salmon says. "It becomes much harder to sell that kind of thing because it's all a little bit schizoid, really."

Blodget sees it as a simpler matter of being responsive to readers, something he believes the traditional media do a poor job of. "I think in 10 years people won't look at newspapers as the only model for real journalism—you'll have native companies built on the Web who have a very collaborative approach with readers and sources," he says. "Gawker and Huffington Post are both examples of companies that have had it tough and have had to be a lot more focused on what people want to read." Blodget's feelings about newspapers are no secret. *The New York Times* in particular rankles him, mostly over what he perceives as its attitude of entitlement and the systemic bloat that he argues should put the paper out of business. He and his investors don't see established websites like TechCrunch or paidContent as their competitors, which might explain Blodget's fixation on the *Times*. "I think Henry sees the real competition as established financial journalism that itself is moving away from print, like Dow Jones, Thomson Reuters, CNBC," says Hanlon. Some see TBI's coverage of the troubled print media to be less reporting than Holy War. "I remember a horrible New York Times earnings report came out, and they were all laughing about it," says Damian Ghigliotty, a graduate of City University of New York's graduate school of journalism, who left TBI after interning there for two days in 2009. (Blodget was not a party to the joking.) "It was hilarious to them that the traditional media companies were tanking. I wanted to turn around and say, 'You guys blog about *The New York Times* so much that it's surprising to me that if it were really going to tank next year that you guys would be laughing about it. Then what would you blog about?'"

For all of Blodget's and Ryan's ambition of replacing stodgy Old Media competitors, TBI has a ways to go before it will be considered the website of record. While TBI has had some news coups—like a rigorously reported history of Facebook—it has also published its share of scoops that turned out to be howlers. Famously, there was the item predicting that *The New York Times* would publish a story on Feb. 8 that would prompt New York Governor David A. Paterson to resign immediately; neither the story nor resignation followed (the *Times* did eventually publish an incriminating Paterson story). TBI also reported that Gawker Media intended to buy a vampire blog, only to realize later that they'd been fooled by a promotion for HBO's *True Blood*. "People talk about rumors all the time on Wall Street, and everywhere else," says Blodget. "I impress upon the team all the time to use their judgment and know that lots of people out there are trying to fool you. We can usually check things out very quickly, but on the other hand, let's not sit on something that will add value by introducing it into the marketplace by saying, 'Well, we'll just wait.'" After Mark Sanford's mistress' name was revealed, most news outlets refrained from publishing Facebook photos of a María Chapur from Argentina who may or may not have been the same María Belén Chapur identified as the mistress, but not TBI. Photos of the wrong María Chapur are still available on the site. TBI has also been accused of giving overly favorable treatment to Ryan's companies, such as Gilt Groupe.

Blodget concedes that TBI is not perfect. "It's not amazing yet. It's got a long way to go. But it's pretty good," he says. And if it gets great, and the world agrees, and if all that money being spent on print media finally migrates to the Internet, Blodget could end up like his pals Denton and Lerer, miles ahead of everyone else.

I ask him about the rumor that he hopes to be bought out by Rupert Murdoch or another Old Media titan. "I think that's a definite possibility," Blodget says. "I wouldn't be surprised at all if ultimately it made sense for us to combine with them. That said, we've also built an infrastructure that can support a very big business for ourselves."

Denton lays out the most optimistic scenario: "This is like the early days of cable," he says. "High—surprisingly high—startup costs. But eventually advertisers move across, and the margins are lavish for the leading players in each category. Jezebel becomes Lifetime, HuffPo becomes MSNBC, and Henry becomes CNBC." In that way, and that way only, Blodget would happily be right back where he started. Ⓑ

"HENRY SEES THE REAL COMPETITION AS ESTABLISHED FINANCIAL JOURNALISM THAT ITSELF IS MOVING AWAY FROM PRINT, LIKE DOW JONES, THOMSON REUTERS, CNBC," SAYS HANLON

ATTACK OF THE KILLER BALLOT PROPOSITION!

The man who is changing the way California—and possibly the rest of the country—elects its leaders is a political maverick with an eccentric legacy in both Sacramento and Hollywood

By Ben Elgin and Christopher Palmeri
Illustration by Mick Brownfield

Steve Peace knows about the consequences of partisan politics. As a Democrat in the California legislature in the late '80s, he voted one time too many with Republicans and paid the price. Party leaders stripped him of committee posts, cut his staff budget, and banished him to a smaller office. They even took away his front-row parking space. Now Peace has a shot at vengeance. On June 8, Californians approved a ballot measure written by constitutional lawyers he hired to start a revolution in the nation's most populous state. Under Proposition 14, also called the Top Two Primaries Act, voters will be able to vote for any candidate in an open primary. The top two vote-getters, regardless of party affiliation, then move on to the general election. Peace and his backers say when the measure becomes law in 2011, contenders won't have to cater to their parties' extremists to win a primary, and voters will elect more centrist, pragmatic leaders who campaign honestly. "We have two political parties that are becoming narrower and narrower," says Peace. "Today, if you behave like a kook, you get rewarded." Peace, 57, acknowledges he's often considered a bit kooky himself. Outside California he's best known as the producer



of 1978's *Attack of the Killer Tomatoes!*, a Hollywood spoof in which Peace, as Lt. Wilbur Finletter, wields a saber in the final scene's fight to the death against a swarm of murderous fruit. In state politics his star moment was pushing through a 1996 bill that deregulated the electricity market. When blackouts and price spikes whipped the state in 2000 and 2001, Peace became infamous.

Passed last year by both chambers of the California legislature and approved by 54 percent of voters, Proposition 14 was backed by a strange-bedfellow coalition that included Republican Governor Arnold Schwarzenegger and Willie Brown, a longtime Democratic leader who served 15 years as speaker of the State Assembly and eight years as mayor of San Francisco. Even former Governor Gray Davis, who was forced out after a recall vote in 2003, signed on, though he offers a more qualified endorsement of Peace. "With Steve you get the best and worst ideas imaginable," says Davis. "A couple are brilliant, four are crummy, and two are probably illegal. He's a geyser of ideas."

Having won over California voters, Peace's movement is going national. New York Mayor Michael R. Bloomberg has impaneled a commission that is, among other things, exploring an open primary initiative for New York City's November ballot. (Bloomberg is the founder of Bloomberg LP, which owns Bloomberg News and *Bloomberg Businessweek*.) Voters elsewhere may soon be considering the option as well.

Appealing to Business

Seated in a leather chair in a San Diego conference room, Peace wears a patterned dress shirt tucked into jeans, though how it manages to stay tucked in is a mystery. An excitable man, he springs out of his chair to animate stories. His noisy reenactment of his response when a campaign worker bungled the printing of campaign flyers brings a knock from the office wall next door. The flyer episode happened 30 years ago.

Before winning election to the state legislature in 1982 as a Democrat representing a conservative area, Peace produced the original *Attack of the Killer Tomatoes!* as well as three sequels. "We were young and dumb and got lucky," he says. He and a partner co-produced a cartoon version that ran on News Corp.'s Fox and there was even a 1999 Greek-language copycat called *The Attack of the Giant Mousaka*. He's working with a company in Singapore on a remake of the original.

Despite his novelty hit, Peace says he always felt pulled toward politics, noting what he calls the political overtones of the *Killer* films in which a bungling leader paints a rosy picture for the public while civilization is under siege. In the Assembly, Peace was given a spot on the Ways & Means Committee. "There was an expectation that I was a marginal member who would help them make their numbers." He and four other moderate Democrats wanted to influence policy, and in 1987 they began siding occasionally with the GOP, which controlled 36 of 80 seats. The insurrection of the Gang of Five, as it was known, crumbled after Democrats made gains in the 1988 election, and Peace and his cohorts were stripped of committee posts and staff. "The light went on for me," he says. "It is easy to get wrapped up in the bubble of the parties. It almost takes an out-of-body experience to challenge the system you're a part of."

Elected to the State Senate in 1993, he became chairman of the Energy, Utilities & Communications Committee. The electricity deregulation debacle—which he blames on the creation of artificial shortages by law-breaking Enron traders—helped derail a potential run for Secretary of State in 2002 when term limits capped his legislative career. After serving one year as California's chief finance director, he went to work as an adviser to John Moores, chairman of the San Diego Padres and founder of JMI Services, which has investments in real estate, sports, entertainment, and technology. Moores and Peace frequently discussed the sorry state of California's political system, which they believed could be fixed only if independent voters got more involved and bridged the eternal gap between tax-cutters and labor constituencies. Over the previous 15 years the number of registered independents had doubled, to 20 percent of the electorate. But their influence was muted by their being less likely than their Democratic and Republican peers to turn out at the polls.



Steve Peace

"With Steve you get the best and worst ideas imaginable," says former Governor Gray Davis. "A couple are brilliant, four are crummy, and two are probably illegal. He's a geyser of ideas."

Moores agreed to contribute $1 million for Peace to launch the nonprofit California Independent Voter Project, which set out to educate and mobilize these elusive independents. Amid the various efforts to engage them, Peace and his colleagues began tinkering with legislation for open primaries. They made slow, methodical progress until one morning in February 2009. Peace was eating breakfast in an upscale Palo Alto restaurant, sipping a cup of green tea, when he received, in quick succession, a call from the Democratic leader of the State Senate, then one from the Republican governor's chief of staff.

The lawyers hired by the Independent Voter Project had just finished preparing this legislative proposal, and Peace was contemplating the arduous task of gathering the 694,354 signatures needed to get the measure before the electorate. The news from Sacramento was that the $85 billion annual budget was one vote shy of passing, and if it didn't go through, the state might have to start paying employees with IOUs. Abel Maldonado, then a Republican state senator who would soon become lieutenant governor, had agreed to vote "yes" if Democrats would agree to an open primary ballot measure. Peace had the document to make it happen. "I was shocked," Peace says, about receiving the call. "In an instant, it changed everything."

Things developed quickly from there. Although the measure didn't have the support of Meg Whitman, the former eBay chief executive officer running for governor, Peace had strong backing from the business community. Reed Hastings, CEO of Netflix, kicked in $257,328; Eli Broad, former CEO of Sun-

KEN JAMES/BLOOMBERG

America, gave $100,000; and Oakland A's managing partner Lewis Wolff contributed $5,000, according to campaign finance data from the California Secretary of State. "I think we need to cross party lines to survive," says Wolff. "This will cause more moderates to get elected."

Is Michigan Next?

California's budget problems became a national spectacle in the past decade, but the seeds of dysfunction were sown in 1933. In the midst of the Great Depression, state lawmakers passed a constitutional amendment requiring two-thirds of the legislature to approve a budget. Only two other states, Rhode Island and Arkansas, require a supermajority to pass every spending plan.

Governance in California got appreciably harder in 1978 when voters approved Proposition 13, which mandated a two-thirds vote in the legislature to raise taxes and also set limits on property tax increases. Since then, California voters have piled on the mandates, making the job of budgeting even harder by setting unsustainable levels of spending on education, early childhood development, wildlife protection, and more. In prosperous times, with an economy as powerful and diverse as California's, it is marginally possible to satisfy all these interests. In hard times it is not.

For 21 of the last 30 years, including 2010, California has begun its fiscal year without a spending plan. This year's budget deficit is projected to be $19.1 billion, putting the world's eighth-largest economy in danger of not being able to pay for office supplies and special education programs. As budget problems have intensified, so has political extremism. "Sacramento," says Allan Hoffenblum, a former Republican consultant and publisher of the *California Target Book*, the bible for state political junkies, "has become the Disneyland for ideologues."

The hope of Prop 14 advocates is that it will support centrist lawmakers who will "do long-term economic development planning rather than year-to-year budget battles," says Samuel Garrison, vice-president of public policy for the Los Angeles Area Chamber of Commerce, which backed the initiative. "It promotes pragmatic candidates who are building consensus and are better focused on attracting and retaining businesses."

Peace says that Prop 14 is about more than improving the business climate—that it'll get regular citizens to believe that things can get done. Political scientists, however, aren't so sure it will be such a breakthrough. "A lot of this is wishful thinking," says Barbara Sinclair, professor emeritus of political science at the University of California at Los Angeles. Weakening the parties won't necessarily mean smarter, more responsible, or even more middle-of-the-road officeholders, she says. If top-two elections produce lawmakers with a hodgepodge of allegiances, "it would make it more difficult for government to function."

That's how many Democrats and Republicans see it, too. Divided over almost everything else, they tend to unite in disdain for open primaries. "It isn't going to do anything but get more business-friendly Democrats in office," says John Burton, chairman of the California Democratic Party. Mark Standriff, a spokesman for the California Republican Party, says the GOP is consulting with other parties about a legal challenge.

A decade ago the state's political parties succeeded in overturning a similar measure. In 1996, voters approved an open primary initiative, only to have it thrown out when the U.S. Supreme Court sided with the state's Republican, Democratic, Libertarian, and Peace & Freedom Parties, which claimed their rights to free association were violated because nonparty members helped choose party candidates in the first round of voting.

Under that legislation, those who moved to the general round were the top winners from each party, not of the total vote. Peace's legal experts, however, have modeled Prop 14 after a Washington State law that uses a different approach: A primary candidate may identify a party preference but not his or her registration, so voters can't know with certainty if a candidate is allied with a particular party. In 2008 the U.S. high court, citing that distinction, upheld the Washington law.

Meanwhile, Peace says, he's hoping Prop 14 fever spreads. Louisiana and Washington have primaries where the two candidates with the most votes advance, and if California's amendment survives legal challenges, others may follow; a Michigan lawmaker has introduced a bill to make his state next.

Even if Prop 14 meets legal resistance, Peace's group continues to function as a democracy lab. Among several new ideas for California: shrinking the campaign season by moving primaries from June to September and banning fundraising when the legislature is meeting, which it does about seven months a year.

The motivation to keep the political movement going, Peace says, is supplied by his first grandchild, a 9-month-old boy. "His odds of living in a democratic society are no better than 50 percent," Peace says. "In the last 50 years there has been a steady march away from the fundamental principles of democracy, which is compromise. Instead we're moving towards the Third World model of democracy, where, if you don't like the outcome, you pick up your guns—literally or figuratively." At the very least, it could provide the underpinnings for the next *Killer Tomatoes* plot. Ⓑ

Where Prop14 Flunked

Although it passed statewide, the ballot initiative mandating open primaries did not win over voters in these three counties.

San Francisco County

55.1% voted "no"

47.3% partisan gap

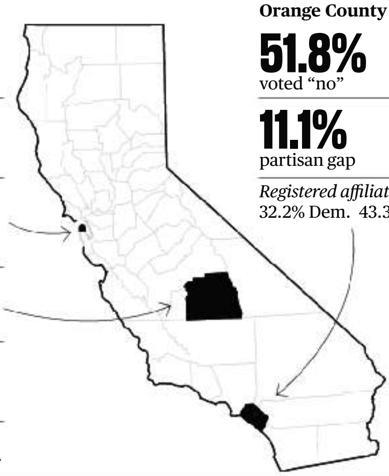
Registered affiliations: 56.6% Dem. 9.3% Rep.

Tulare County

50.3% voted "no"

10.7% partisan gap

Registered affiliations: 34.9% Dem. 45.6% Rep.



Orange County

51.8% voted "no"

11.1% partisan gap

Registered affiliations: 32.2% Dem. 43.3% Rep.

It's what's next.



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How to thrive in a double-dip Page 77

Art&LasVegas&Quants&Snacks&Music

Etc.

Remembering Motorola's biggest hits. Literally. Page 72





A League of Their Own

A new London-based hedge fund is making history by betting on sports. And Americans are missing out on the fun. *By Paul Wachter*

DOUGLAS: 20TH CENTURY FOX/PHOTOFEST; TRADING FLOOR: DANIEL ACKER/BLOOMBERG; SPORTS IMAGES: GETTY IMAGES (40)

Etc. Sports Betting

Tony Woodhams gets annoyed when people suggest he's a gambler. "What you saw happening on Wall Street the past few years–that was gambling," says Woodhams, the managing director of an upstart London-based hedge fund, Galileo, that partakes in exactly the sorts of activities many would consider gambling. Every week, Galileo bets on thousands of sports games. According to Woodhams, however, his hedge fund is merely acting like any other, "spreading out the risk and only wagering on matches where we feel we have a competitive advantage."

The Galileo Managed Sports Fund, which launched in April under the umbrella of the nine-year-old Centaur Group, is the world's first sports-betting hedge fund. The idea has been knocking around for a while. Six years ago, Mark Cuban, the billionaire owner of the National Basketball Assn.'s Dallas Mavericks, proposed a similar fund, only to see his idea crash on the shoals of American prohibitionism. While the NBA forbids anyone involved with the league from betting on its games, there was a larger problem: Outside of Nevada, Delaware, and Oregon, betting on sports is largely illegal.

Woodhams is still a ways from raising his target of €50 million, which he is procuring from individuals, with a minimum buy in of €100,000. (Woodhams says Galileo had around 20 founding investors, none of them American.) Yet if he can even come close to delivering his Soros-like hopes for the fund–15 percent to 25 percent returns after fees–Galileo will surely not be the last of its kind.

"It's been a tough two years," Woodhams says. "But sports betting isn't tied to the markets"

After two decades trading derivatives, Woodhams, 40, isn't looking to attract sports lovers. He wants investors seeking to diversify their portfolio. "It's been a tough two years for investors. Their stocks are down, their property values are down," he says. "But sports betting isn't tied to the markets. People are always betting on sports!"

A casual fan, Woodhams says that when he watches sports now he feels like Neo in *The Matrix*, seeing numbers and betting possibilities emanate from the screen. Woodhams believes such bets are safer than investing in the financial markets because of the volatility of the latter and the factors that influence the former. "I was talking to a hedge fund manager the other day," he says. "He was talking about his approach to the markets, which was clinical. Then he told me after a long day he'll bet on some games, and it's all emotion. It's as though he's a schoolboy betting on his favorite team."

Galileo's edge, Woodhams says, is investing on sports lines without emotion–through proprietary computer models. While he won't divulge specifics, in essence Galileo does what professional gamblers, or "sharps," do: It looks for contests where emotions move the lines. For example, in the NCAA basketball tournament, casual bettors tend to favor teams with storied histories–such as Duke and North Carolina. Sharps can also learn more about a second-division German soccer team or an Ivy League basketball squad than the line setters. However, whereas sharps might personally scout such teams, Galileo relies on public information, including match statistics and news reports. "I can't think of a better job than sit-

Woodhams, Galileo's managing director, in *Matrix* mode at his London office



PHOTOGRAPH BY COLIN LANE FOR BLOOMBERG BUSINESSWEEK

ting in an office watching sports and making money from it," says Tony Hargraves, who oversees Galileo's traders. Five years ago, Hargraves was making $10 an hour as a courier. Now he's making $400 an hour, by his own estimation, as a sports trader.

Galileo enters every "trade" only after declaring the odds under which it will pull out. Since betting odds change throughout the course of a game based on the score or a team's momentum—much like a stock price during trading hours—Galileo's employees preordain when to either walk away or cut their losses. (There are no penalties for exiting a trade.) For example, after betting against a draw result (not counting extra time or penalty kicks, which create separate markets) in the recent World Cup contest between England and Germany, Galileo successfully pulled out of the trade soon after Germany went up 2-0. So far, so good: According to Hargraves, the fund's winnings during the first 19 days of the World Cup increased its coffers by 8.58 percent.

Galileo employs five traders and four analysts—all of whom have some financial background—to identify profit opportunities in sports betting markets. Which is to say they bet on soccer, tennis, golf, cricket, and rugby. The gambling outlet where Galileo places its bets welcomes the fund's money. "For us to succeed, we need liquidity," says Robin Marks, head of media for London-based Betfair, the world's largest Internet betting exchange.

That shouldn't be a problem. Global gambling revenue is expected to reach $144 billion by 2011, according to PricewaterhouseCoopers. Merrill Lynch predicts that by 2015, online gambling alone could become a $528 billion-a-year industry. Woodhams believes the U.S.—where bettors wager with bookies and overseas Internet exchanges—is bound to change its policy to profit from this trend. "America's a betting country, and it's only a matter of time," he says.

Such logic seems optimistic. The 1961 Interstate Wire Act, which forbade wagering using "a wire communication facility," and the 1992 Professional & Amateur Sports Protection Act (PASPA), which banned sports betting outside the few states where it was already well established, have effectively rendered the notion impossible. A sports-gambling hedge fund in, say, Las Vegas, would have trouble gaining approval from the Securities & Exchange Commission. Any other hope may have expired when, last month, the White House allowed the Unlawful Internet Gambling Enforcement Act (UIGEA) to take effect. Recent bills introduced by Representatives Barney Frank (D-Mass.) and Jim McDermott (D-Wash.) to legalize and tax the online gambling industry apply only to poker. Says Steve Adamske, a spokesman for Frank's Financial Services Committee: "If you try to legalize sports gambling, it's not going to pass."

In America, gambling's negative impact on sports—from the 1919 Chicago Black Sox to Pete Rose to the 2007 indictment of NBA referee Tim Donaghy for betting on games he officiated—has left psychic scars. It's one reason why no major professional sports team has planted roots in Las Vegas. Bill Bradley, the NBA Hall of Famer and former New Jersey senator who sponsored PASPA, echoes the concerns of many when he says, "I don't think we should be turning players into roulette chips."

Still, some in the business argue that betting on sports can purify the games. In 2007, Betfair, which cooperates with the world's sports bodies to uncover fixing, flagged a tennis match between world No. 4 Nikolay Davydenko and No. 87 Martin Vassallo Arguello. Even after Davydenko won the first set, money poured in on Arguello. When Davydenko retired from the match with a foot injury, Betfair suspended payouts and reported the irregularity to the Association of Tennis Professionals. "All we do is report it," Marks says. "It's up to the sporting bodies themselves what they do with the information." The ATP eventually cleared both players of any wrongdoing.

As a private fund, Galileo is less concerned with cleaning up sports than with making money. Woodhams hopes to soon gain American investors, too, and he still believes he'll get approval from the SEC. Maybe he has a point. After the financial meltdown, when millions lost their savings and pensions to mind-boggling financial transactions, Galileo at least presents an idea Main Street can wrap its head around—that Rafael Nadal's forehand may be a safer investment than a mortgage-backed security. ⓑ

Galileo's winnings boosted the fund by 8.58 percent during the first 19 days of the World Cup

Playing the Field

According to Tony Hargraves, who overseas the traders at Galileo, the firm profited from investments in the following contests.



June 27: England vs. Germany (World Cup)

Biased home support for the English side made the bet against a draw (11-to-5 odds) extremely favorable. According to Galileo, after two German goals in the first half, the odds grew to 11 to 2 and Galileo exited the trade with a profit.



June 28: Brazil vs. Chile (World Cup)

Based on statistics indicating Brazil's prowess against teams with styles similar to Chile's, Galileo entered in a bet against a draw result (odds: 7 to 2). After Brazil scored two goals and the odds of a draw drifted much higher, the trade was successfully exited.



June 30: England vs. Australia (cricket)

Focusing on England's and Australia's batting-order habits, Galileo backed Australia to win at 2-to-5 odds. After Australia's perfect bat, the odds for Australia moved downward to 1 to 4, and Galileo walked away.

FROM TOP: STU FORSTER/GETTY IMAGES; CLIVE MASON/GETTY IMAGES; BOB THOMAS/GETTY IMAGES

Etc. Hands On

The launch of Motorola's Droid X has been largely obscured by the iPhone 4's debut



Motorola's New Mojo

Motorola's Droid X has a screen larger than the iPhone's. Is it too big to fail? *By Rich Jaroslovsky*

Apple's new-product launches tend to overshadow any company that dares to unveil a gadget around the same time. That's what happened to Motorola and Verizon Wireless, whose Droid X was introduced the same week the iPhone 4 went on sale.

The Droid X is the successor to last year's original Droid. That phone began Motorola's comeback effort after the former wireless king, whose fortunes tumbled when it couldn't create a successor to its hit Razr, scrapped development of its own operating system in favor of Google's Android. The Droid X, which goes on sale July 15, has a few advantages over the iPhone. The 4.3-inch screen, the largest I've ever used, is nearly 25 percent bigger than the iPhone's. Yet the Droid X is lighter and thinner than its predecessor because Motorola jettisoned a physical keyboard in favor of an onscreen one. It can also do something cool that the iPhone can't: provide a Wi-Fi signal for nearby devices. The Mobile Hotspot feature costs $20 for up to 2 gigabytes of data per month, on top of the cost of the phone—$199 after a $100 rebate—and voice and data plans that start at $75.

The Droid X's biggest advantage is that it runs on Verizon Wireless, which is superior to the AT&T network that the iPhone is—at least for now—tethered to. This summer, an over-the-air upgrade will allow the Droid X to run videos using Adobe's Flash software, which Apple CEO Steve Jobs has famously banished from the iPhone. Still, while the Droid X does a lot of things well, it does no one thing well enough to conquer the mighty iPhone. B

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MOTOROLA DROID X

The phone, featuring a large 4.3-inch screen, sells for $199 after a $100 rebate.



CELL BY DATE

Motorola's biggest moments



DynaTAC 8000X (1983)

The first commercial portable phone—a Gordon Gekko favorite—weighed 2 pounds.



MicroTAC (1989)

The lightest, smallest phone of the 1980s weighed 12.3 ounces and measured more than 9 inches in length.



StarTAC (1996)

This "clamshell" model introduced the pocket-size cell phone—at an introductory cost of $1,000.



MOTORAZR V3 (2004)

Phone or fashion accessory? The Razr became a status symbol in the hands of Madonna, Paris Hilton, and Kate Moss.

ILLUSTRATION BY ANDREW JOYNER/THE JACKY WINTER GROUP

Etc. One True Thing

The Office Snack

Kale is the most nutrient-dense vegetable you can eat, according to a University of Washington report



Combat the afternoon lag with something smart—and savory

The want: A midafternoon pick-me-up that's tasty, healthy, and doesn't leave oil on your fingers. It shouldn't be available in a vending machine, but should stay fresh in your desk drawer.

The get: Rhythm Superfood Kale Chips ($5 at DailyJuice.org). Eating these is like snacking on a salad. One 106-calorie serving (there are two per bag) delivers 5g of protein, 2g of fiber, and over 100 percent of the vitamins A and C you need for the day. Ground ancho and cayenne give the Zesty Nacho (pictured) a piquant kick, while the Kool Ranch variety is a grown-up reminder of your Doritos days. B

—*Merritt Watts*

SWEET NOTHINGS

The runners-up



Sahale Biscotti Chips

These pomegranate-flavored crisps pair with coffee and fill you up: A dozen have 4g of protein, 3g of fiber, and 130 calories.



Justin's Nut Butter

With 3g of fiber and 6g of protein, each 190-calorie pack of almond butter is sweet but not too sugary, so you won't crash.



Emerald Dark Chocolate Cocoa Roast Almonds

The container's cap measures 150 calories worth of cocoa-dusted nuts rich in protein and vitamin E.

The brainchild of an Austin music producer, Rhythm Superfoods makes products that are raw, vegan, and gluten-free

RHYTHM CHIPS: PHOTOGRAPH BY JAMIE CHUNG FOR BLOOMBERG BUSINESSWEEK; SWEET NOTHINGS: PHOTOGRAPHS BY DAVES+STARR FOR BLOOMBERG BUSINESSWEEK (3)

Las Vegas

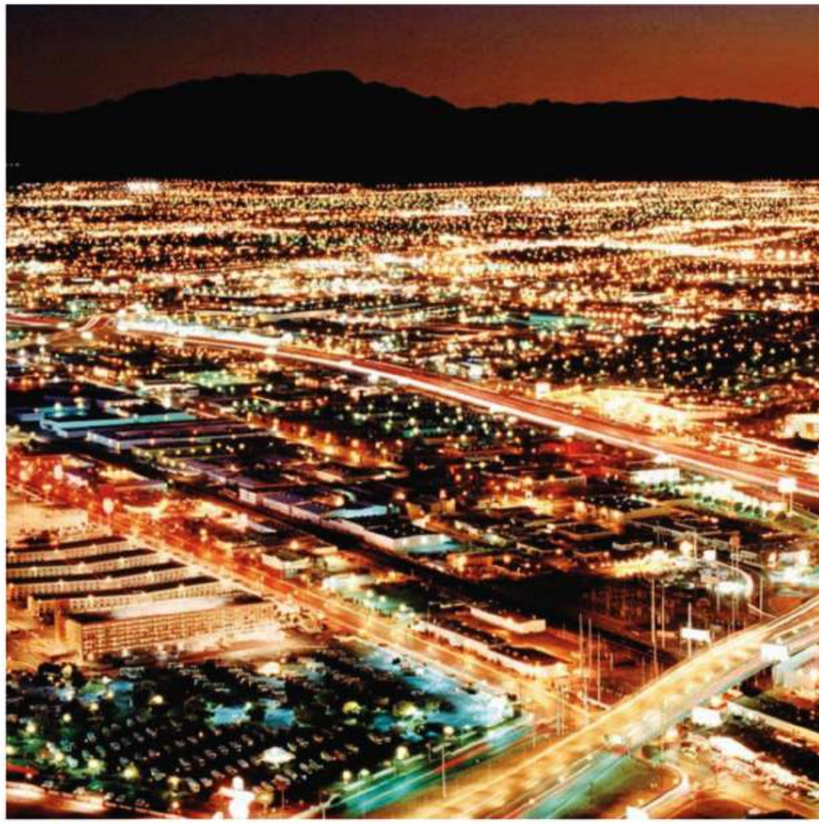
America's most overblown city embraces a smaller, quirkier scene

It's been a rough few years for Sin City, where gambling and hotel rates hit rock bottom just as the $9.2 billion CityCenter added 6,000 hotel rooms to the city's existing 141,000. Vegas' megawattage is finally waning, and investors—and tourists—are avoiding corporate projects in favor of smaller, entrepreneurial endeavors:

Across from the Hard Rock Hotel and Casino, a 1970s Travelodge has been reborn as **Rumor**, a white-stucco, South Beachesque hotel with 150 rock-and-roll-inspired rooms replete with black wallpaper and purple rugs. SoCal weekenders stretch out on hammocks strung between palm trees and order extra-spicy house Bloody Marys from the pool deck's bar. Bookish types prefer the **Artisan Hotel**, a hidden, art-swathed 64-room respite from the seedy video stores and gents' clubs nearby. Even if you don't stay at the Artisan, grab a classic, gin-based Bijou at its grotto-like lounge, done up in dark wood and distressed leather. For luxury, the **Four Seasons** has a private driveway and lush landscaped gardens that feel far removed from the Strip. Its mere 424 rooms make it intimate by Vegas standards—the MGM Grand boasts 5,690.

Other gems are dispersed throughout the city, in the suburbs of Henderson and Summerlin, and on Chinatown's main drag. A good starting point is the **18b Arts District**, the center of Vegas' surprising art scene. If you can only hit one spot, it should be **The Arts Factory,** which houses galleries including the **Contemporary Arts Center** and **Laura Henkel Fine Art.** The latter is showing a Japanese wrestling-inspired pop art exhibit entitled "Stars and Sumos" through Aug. 21. For a crasser culture shock, the **Erotic Heritage Museum** is a constantly evolving collection of exhibitions about everything from toilet humor to Larry Flint. Erotic Shakespeare performances start this September.

East of the city's bright-lit hub (and across the street from the kitschy **Liberace Museum**), the newly reopened **Pinball Hall of Fame** houses machines ranging from the 1950s "woodrail" style to the newest in multiplayer electro-mechanical technology. While you're in the neighborhood, swing by **Double Down Saloon**, Vegas' original dive bar. It's famous for "ass juice," a potent concoction whose exact recipe is closely guarded by the bar's owner, P Moss. "I can only share the three criteria: It has to be strong, taste good, and look like s--t," Moss says.



It's easy to find a hotel room in Vegas, but it's worth searching for off-the-Strip gems

While rotund gamers swarm casinos' mile-long cholesterolic buffets, local foodies flock to **Sen of Japan,** a sushi bar in a strip mall several miles west of downtown. Sen's chef is a Nobu expat who still turns out fresh, inventive plates—more modestly priced than they would be in New York. Nearby, **Yagyu Yakiniku** serves a Japanese take on Korean barbecue. Try the flash-grilled kobe beef or pork belly. More casual diners can meet up at **Slidin' Thru,** Vegas' first food truck, for excellent sliders and rib-and-pulled-pork sandwiches (track its movements at slidinthru.com). Or, for a taste of the South, order crawpuppies (crawfish-stuffed hush puppies) at **Lola's,** a Cajun diner with a mahogany bar and gleaming white-tiled walls.

End your day with a round of beers at **Don't Tell Mama,** a classic black-and-white-floored piano joint where bar hands double as performers and karaoke-style sing-alongs are encouraged. And since it's forbidden to turn in before 2 a.m. in Sin City, pop around the corner to sip a Sazerac at **Downtown Cocktail Room,** which defies the city's neon glow with a sophisticated speakeasy vibe.

—Geraldine Campbell

SIGHTS SCENE

Hit the main attractions while avoiding the throng

Bellagio Fountains
Instead of ogling out front, book brunch at the Bellagio's Cantonese restaurant, Jasmine, which affords front-row seats to the show

Hoover Dam
Papillon Airways flies you, via helicopter, to the Dam over Lake Mead and over Black Canyon on the way back (Papillon.com, $119)

The Strip
Glitter Gulch is best seen over lemongrass mojitos at the Mandarin Oriental's new 23rd-floor bar; go at sunset to see the lights coming on through floor-to-ceiling windows







Pool service is top-notch at the Four Seasons



See signs, paintings, and prints at the Erotic Heritage Museum

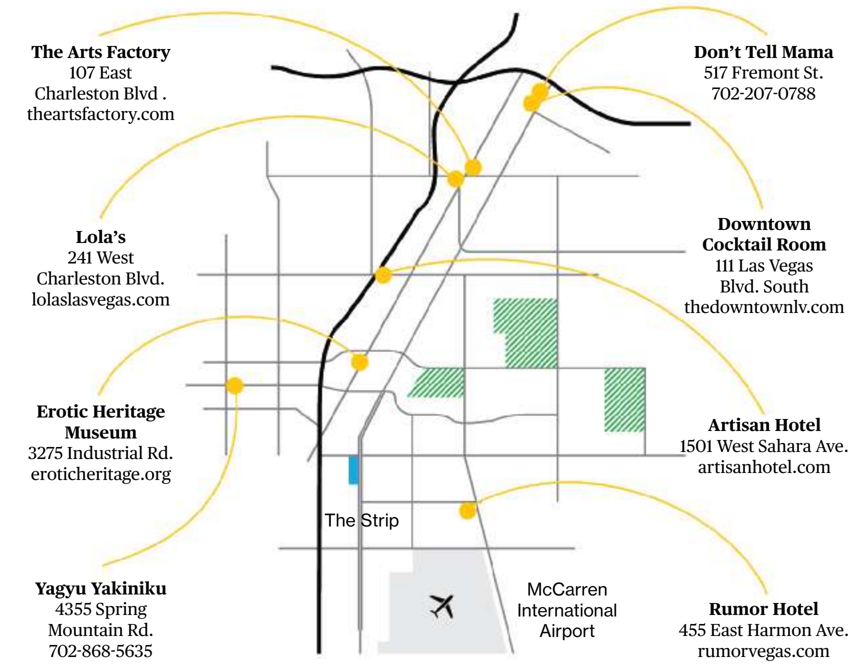


Rumor's suites feature spa-like soaking tubs



Order sweet potato fries from the Slidin' Thru truck

ROAD SCHOLAR



PRICE POINTS

Flights (July round-trips)

Los Angeles $160; **New York** $350; **Chicago** $400

Food & Drink

Lunch for two, Slidin' Thru (yaya sliders and sweet potato fries), $16

Dinner for two, Sen of Japan (crunchy spicy tuna spring rolls, black snapper with garlic olive oil, soft-shell crab, two glasses Masumi Arabashiri sake), $82

Dinner for two, Yagyu Yakiniku (stone-pot bibimbap, prime rib eye, pork toro, pineapple sorbet, bottle Otokoyama sake), $52

"Ass Juice" at Double Down, $3

Pabst Blue Ribbon at Don't Tell Mama, $4

Sazerac at Downtown Cocktail Room, $9

Hotels (night rate)

Cheap: Artisan Hotel, $70

Mid: Rumor, $90

Amazing: Four Seasons, $250

Etc.

Two-day car rental from Budget, $44

Erotic Heritage Museum, $15

CITY: LESTER LEFKOWITZ/CORBIS; SIGN: FREDERICK BASS/FSTOP/CORBIS



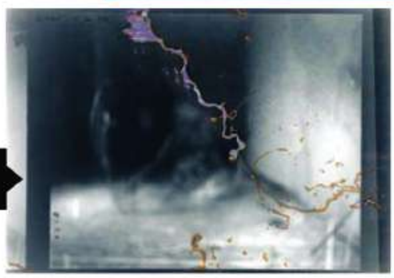
Est. auction price: Up to $1.2 million

We've Got Style (The Vessel Collection–Blue/Green), 1993, sculpture by Damien Hirst



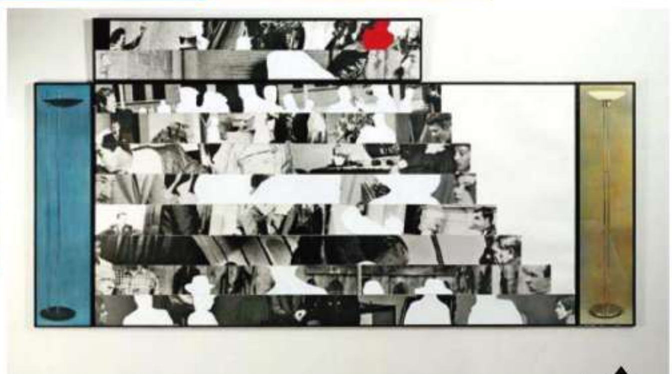
Untitled (Swimmer No. 1), 1997, by Chinese painter Fang Lijun

Est. auction price: $200,000-$300,000



Est. auction price: $25,000 to $35,000

Misty Self-Portrait 19.1.90, 1990, oil on photograph by Gerhard Richter



Est. auction price: $350,000 to $450,000

Stares (with Lamps), 1986, a photo collage by John Baldessari

For Sale: Lehman's Louvre

Some of the failed bank's best investments will be up for auction this September

If Lehman Brothers had been half as smart about mortgage-backed securities as it was about art, the firm might still be in business. Instead, it's in the midst of a court-ordered liquidation that will include an auction of more than 400 contemporary artworks by Sotheby's on Sept. 25. Many pieces have skyrocketed in value since they were purchased; the total haul could exceed $10 million, which would pay off less than 0.1 percent of the $15.5 billion owed creditors around the world.

The most desirable booty comes from the collection of Neuberger Berman, an asset management firm that Lehman acquired for more than $2.6 billion in 2003. Neuberger bought pieces by young talents and midcareer names—meaning the sale will be studded with artists whose prices have spiked over the last decade, such as John Baldessari and Takashi Murakami. The firm rarely paid more than $20,000 per piece, and some values have soared to around $1 million. Julie Mehretu's *Untitled 1*, bought for $21,726 in 2001, is expected to pull in $800,000.

Former Lehman CEO Fuld pocketed $20 million at a Christie's auction shortly after the bank went bust



In 1994, Neuberger paid well under $100,000 for a sculpture called *We've Got Style (The Vessel Collection–Blue/Green)*. Its creator was a struggling artist named Damien Hirst. Hirst's bright-blue cabinet filled with ordinary household objects was a critique of consumerism and a poke at collectors' vanity. Today it should fetch up to $1.2 million.

Lehman's trove was spread mainly among its New York locations, though former Chief Executive Officer Dick Fuld's office was reportedly devoid of expensive art—surprising, since he and his wife are major collectors. (Kathleen Fuld is a MoMA trustee.) Shortly after Lehman's collapse, the Fulds sent their postwar drawings to be auctioned off at Christie's in New York, causing a firestorm by dumping art on the market so soon after the company tanked. Although their pieces earned $13.5 million at auction, they charged Christie's the full $20 million it had guaranteed for the sale. Those Lehman guys really know how to play the art market. B —*Lindsay Pollock*

ART: COURTESY SOTHEBY'S; FULD: REX USA

Etc. Wealth



← Invest in

Prowling for Value in A Haywire Marketplace

Quant investor Rob Arnott, of Research Affiliates, hunts for unloved stocks in unloved markets

We invest in stocks—and other markets—based on an idea we pioneered called fundamental indexing. Instead of weighting companies in an index according to their market capitalization, we weigh them according to how big they are as a business, by measures such as aggregate profits, sales, and dividends. The size of the company's business becomes your anchor. So when a stock soars and its business doesn't, trim it. When a stock plunges and its business doesn't, buy it.

Most of my money is away from stocks at the moment, in long-short strategies [that aim to profit from betting certain stocks will fall, while also buying stocks expected to appreciate], investment-grade bonds, and the long Treasury Inflation-Protected Securities (TIPS). I see all sorts of wonderful buying opportunities in the coming 12 to 24 months. They're not here now. You buy assets when they're cheap, when investors are frightened. The growth side of the market is priced for a very benign environment. The deep value side is saying: "Whoa, things could still go haywire." I'd much rather buy stocks priced as if things could go haywire than stocks priced as if everything is fine.

I think we will have another recession, and the catalyst will be the lapsing of the Bush tax cuts at year-end. Stock sectors priced at levels that reflect fears of a second round of the global financial crisis—and that are most likely to perform well—are utilities, consumer discretionary, industrials, and financials.

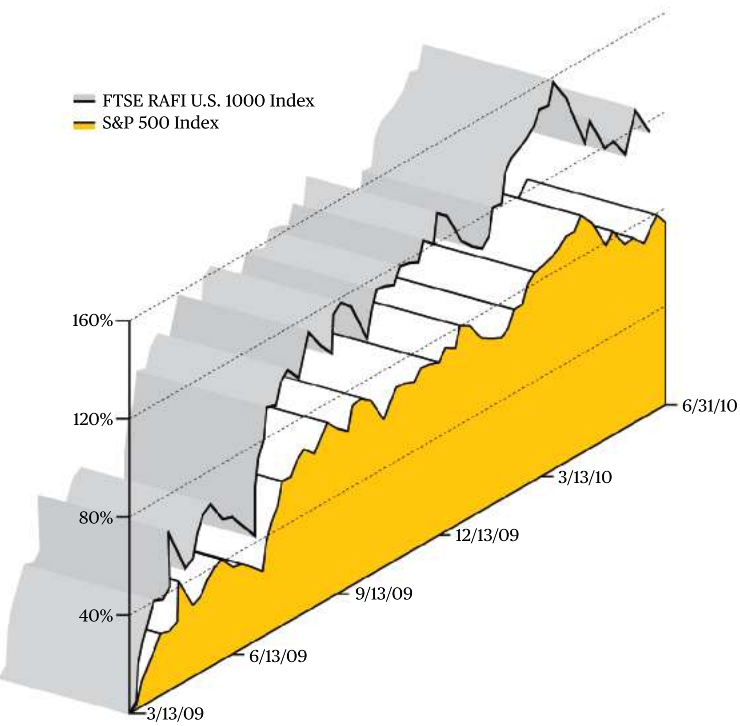
Other areas that merit careful consideration for purchase in a renewed recession are emerging markets, commodities, and real estate investment trusts. Emerging markets will falter. Commercial real estate will get hit hard again. Commodity prices will fall. Current discussions are all about China, which means the bargains probably aren't there. Malaysia, Russia, and Turkey get hardly any attention and are priced accordingly. We'd overweight those markets.

Long-term, inflation-linked bonds are interesting. Very few people are worried about inflation over the next 12 months. Very few would be so sanguine about our ability to dodge the inflation bullet for the next 20-plus years. TIPS are a long-term safe haven and anchor to a portfolio. The yield is about 2 percent. At 2 percent, they don't sound very interesting. But that's a real [inflation-adjusted] yield. If inflation is more than 2½ percent over the next 20 years, then long TIPS utterly dominate long Treasuries.

A strategy really out of the mainstream and scary would be to go long on BP and short on Apple. BP's contractual obligations toward the cleanup are surprisingly modest, and if the government asks them to pay too much, they'll dig in their heels. Apple, on the other hand, is priced at more than 80 percent of ExxonMobil's market cap. Great company, great prospects, but are they likely to produce more than 80 percent of the profits of ExxonMobil in coming decades? —*As told to Helaine Olen*

A FUNDAMENTAL INDEX ADVANTAGE?

A type of stock index pioneered by Arnott's firm is beating the S&P 500



DATA: BLOOMBERG

A strategy really out of the mainstream and scary would be to go long on BP and short on Apple

The Stat: Rob Arnott is chairman and founder of money management and analytics firm Research Affiliates. He is also manager of the $22 billion Pimco All Asset suite of tactical allocation mutual funds. Pimco was the first licensee of the fundamental index concept.

DE AGOSTINI PICTURE LIBRARY/GETTY IMAGES

A bromance for the ages: With Jean-Marie Messier, before Vivendi Universal's epic collapse



Bronfman's Redemption Song

Edgar Bronfman Jr.'s second act deserves some credit—and some scrutiny, too. *By Jesse Kornbluth*

The music business, Hunter S. Thompson once suggested, is "a cruel and shallow money trench, a long plastic hallway where thieves and pimps run free, and good men die like dogs. There's also a negative side." So what, one wonders, is Edgar Bronfman Jr., scion of the Seagram liquor empire, doing as the CEO of Warner Music Group?

As Fred Goodman tells the tale in this latest entry in the music industry apocalypse genre, *Fortune's Fool: Edgar Bronfman Jr., Warner Music, and an Industry in Crisis*, Bronfman is the victim of his own genuine interest in entertainment. In high school, Bronfman glommed onto a script that had been sent to his father for financing and ended up working on the movie. He skipped college and co-authored songs for Dionne Warwick and Ashford & Simpson. At 27, Bronfman went to work in the family business; two years later, he was promoted to run the flagship liquor division. He bought companies and sold others. Investors were not much impressed, so in the mid-1990s he bought music companies—MCA, Interscope, and PolyGram.

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Fortune's Fool: Edgar Bronfman Jr., Warner Music, and an Industry in Crisis

By Fred Goodman
SIMON & SCHUSTER; 323 pp, $28



Thanks to Jimmy Iovine at Interscope, Bronfman experienced a quick gusher of music business success. Iovine's portfolio of rap artists delivered outrageous profits, but that revenue gutted the industry's venerable business model. In the past, record companies developed careers and built catalogs. Now the business was moving toward the cocaine model: hit, hit, hit.

In 2000, Bronfman made a catastrophic merger—he hitched his family's fortune to Vivendi and Jean-Marie Messier, the out-of-control French CEO who led the company to an $11.8 billion loss the next year. The cost of the Bronfmans' entry in the multimedia business: $3 billion. Damage to Edgar's reputation: priceless. And then, as if on cue, a chance for redemption. Owing to an even more disastrous merger—AOL and Time Warner—another music company was on the block looking for a savior. Bronfman made a great deal; for half the purchase price, he got control of Warner Music and took it private.

TOP: BLOOMBERG NEWS

As Goodman tells it, Bronfman tried everything to reinvigorate Warner. He hired Lyor Cohen, a proven hitmaker. He pushed Warner to license music on iTunes; for a while he allowed YouTube to show its videos. He is even said to have discovered British singer James Blunt, whose debut record sold 11 million copies worldwide.

The effort was valiant, but the timing was all wrong: iTunes was turning albums into collections of 99¢ singles while much of the target audience believed music should be free. (And if it wasn't free, it could surely be pirated elsewhere.) Warner gained share, but in a rapidly shrinking market. In 2007, Warner had the year's best-selling album, Josh Groban's *Noël*, which sold 3.7 million copies. In 2000 that wouldn't have made the top 10.

Warner isn't alone in failing to deliver a creative or technological breakthrough. Meanwhile, independent labels—staffed by people who love music more than they dream of taking a chopper to the Hamptons on Friday afternoon—are finding artists like Yeasayer and Beach House: acts that may never sell in the millions but attract audiences willing to pay for their music. Could such nimble enterprises represent the future of the business?

If the allocation of Warner's $750 million public offering, in 2005, is a guide, we may not be there yet. Bronfman's priority was his investors; only $7 million was earmarked for the company's expenses, and Bronfman and Cohen each collected bonuses of $5 million. Another transaction makes Bronfman look even shakier. Goodman reduces this story to a single paragraph, but in 2007, Len Blavatnik, a Russian-American billionaire who had invested $25 million in Warner Music Group in exchange for a seat on its board, bought Bronfman's New York townhouse for $50 million in cash—the second-largest private real estate transfer in Manhattan, ever—shortly before he resigned as a director. Curious: Blavatnik already owned two homes in Manhattan. Just as curious: The sale was never presented to the board.

Anecdotes like this one—and the $2.8 million distribution deal Warner made with Bronfman's sister and her husband, who then subcontracted the work to another firm—prevent Bronfman from getting respect and offer insight into the industry's continuing spiral. As does the fact that, in May 2009, as he was starting his fifth year as CEO and with Warner Music stock mired around $5, he announced he was moving to London for two years. Ironically, in London, Bronfman finds himself No. 1 on the *Sunday Times*'s Music Millionaire's List. It might be a prudent time to declare victory and sell. Alas, that would require a deep-pocketed believer—and, unfortunately, there's only one Edgar Bronfman Jr. Ⓑ

Warner's Hit Machine

Bronfman has overseen a range of top sellers as CEO of Warner Music Group—albeit in a rapidly shrinking market.

Since its 2004 release, **Green Day**'s *American Idiot* has sold more than an estimated 12 million copies around the world.

Despite selling just more than 2 million units, **Kid Rock**'s *Rock n Roll Jesus* was the fourth best-selling album of 2008.

With 3.7 million albums sold, **Josh Groban**'s *Noël* was the biggest seller of 2007. In 2000, it wouldn't have cracked the top 10.

At 1.5 million units sold in 2008, **T.I.**'s *Paper Trail* was the year's eighth-biggest hit.



Linkin Park's 2007 *Minutes to Midnight* sold 625,000 copies in its first week. Its previous album sold 810,000 in its debut week.

Eminem's *Recovery*, released last month, sold 741,000 units its first week. It's on course to be one of the year's top sellers.

A Bronfman discovery, **James Blunt** had the U.K.'s best-selling album of the decade with *Back to Bedlam*.

AC/DC's *Black Ice* sold more than 780,000 units in its first week in 2008. It even beat *High School Musical 3*.

DATA: NIELSEN SOUNDSCAN; BILLBOARD; BLOOMBERG NEWS

GETTY IMAGES (8)

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FSC Mixed Sources

Kai-Fu Lee

"China is not an easy environment right now, but it's a place where I feel I can make a bigger difference"

The founding president of Google China on forsaking Silicon Valley to launch a company that invests in Chinese startups



I had been working at Google for about four years. Google China was my baby, and the people were like family to me. I had a team of 700 people I had hired and a business that had increased market share from 10 percent to 31 percent. It was difficult to leave, but the idea of starting something on my own had been on my mind for a while.

I thought about launching a startup in the U.S., but all of Silicon Valley is a giant incubator: the networking, the knowhow, the values, the availability of capital and technology. It's appealing because of the beautiful sun and fresh air; it has an open environment where great innovations were conceived. The stuff that happens naturally there doesn't happen in China, where there's a need for an organized approach to innovation. China is not an easy environment right now, but it's a place where I feel I can make a bigger difference.

I decided to launch Innovation Works to invest in Chinese startups. I could have picked other options. Private equity companies have done well in China. Investing in the privatization of state-owned companies has been lucrative. But for every major choice you face, you have to think, "Why me?" and "Why only me?" If the answers aren't compelling, you have to ask why you're doing it.

I tend to make my choices analytically, and I make them quickly. That doesn't mean they're not tough. Once I make a decision, though, I don't regret it–even if it causes difficulties.

If we don't invest in Chinese startups now, we will miss a huge opportunity. China is hard to understand because no country has moved so fast. Chinese people currently spend more time on the phone than on the computer. The user habits are different than in the U.S.: 30 percent of Chinese go online at Internet cafés. Chinese Internet users are young and hungry for knowledge. The country's talent is tremendous–brilliant, in fact–but they need mentors. At some point, there may be a Chinese Silicon Valley. It could take a decade or so. And I want to help in building it. Ⓑ

—As told to Diane Brady

PHOTOGRAPH BY TONY LAW FOR BLOOMBERG BUSINESSWEEK

Smarter business for a Smarter Planet:

What if foresight were 20/20?

Today, CFOs are under more pressure than ever before to use information to fuel better business decisions. But is the information at their fingertips actually helping them do that? Many companies find themselves accessing information through management processes that can be slow, disconnected, error prone or all of the above. IBM Cognos® solutions give your finance team information they can trust, when and how they need it. Allowing them to use analytics to anticipate performance gaps, prioritize resources, gain insight into profit and growth—and make better decisions, faster. Companies have already used IBM Cognos solutions to reduce financial planning cycles by 77% and reporting cycles from days to minutes.

A smarter business needs smarter software, systems and services.
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